

Reagan's Bid to Soviet Is Seen as Politicking By Some Europeans

By E.J. Dionne Jr.
New York Times Service

PARIS — Some West European commentators view President Ronald Reagan's offer to meet with Soviet leaders more as a response to the pressures of an election year than as a major breakthrough in American foreign policy.

Even conservative papers that often support Mr. Reagan policies offered that interpretation of the announcement. Some liberal or leftist papers questioned the president's sincerity.

Mr. Reagan announced Thursday that he was willing to "meet and talk any time" with the Soviet leader, Konstantin U. Chernenko, to discuss a broad range of subjects. The president added, however, that the Russians had rebuffed him by insisting on "a very carefully prepared agenda" of items.

Some newspapers, such as *Kölner Stadt-Anzeiger* in Cologne, gave the announcement prominent space on its front page. Others, such as *Le Monde* of Paris, used a small item inside the paper.

There was little immediate reaction from political leaders, many of whom were involved in campaigns for the European Parliament.

Typical of reaction in Mr. Reagan's announcement was a headline in *Le Figaro*, a staunchly conservative and generally pro-Reagan paper in Paris. The paper called the offer "first of all, a public relations operation."

The Daily Telegraph in London, another conservative paper generally sympathetic to the president, said the statement "cannot fairly be described as a dramatic, spellbinding shift in policy by an American president who not so long ago was known for his attacks on the 'evil empire.'"

In Cologne, the *Kölner Stadt-Anzeiger* and *Le Monde*, emphasized that Mr. Reagan's announcement came at the same time as a mild moderation in the nature of Soviet statements.

"The U.S.A. and the U.S.S.R. both have given new signals for a dialogue and have shown their readiness for a summit," the paper said.

EC Voting Is Completed; Internal Issues Dominate

(Continued from Page 1)
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The Free Democrats have been heatedly attacked for supporting an amnesty involving tax advantages for business. The party's rating has also slipped in recent surveys.

A poll published Friday by the Institute for Social Research and Statistical Analysis predicted that the Free Democrats would fail to obtain the 5 percent of the vote needed to be represented in the Parliament. In 1979, the party, which is headed by Foreign Minister Hans-Dietrich Genscher, won 10 percent of the vote and four seats.

The institute also predicted that the Greens, the environmental and anti-war party, would win at least 5 percent of the vote and enter the Parliament for the first time.

Political observers said they expected voter turnout to be close in the 65 percent of the previous election in 1979.

Mr. Kohl, emphasizing European themes, has appealed to voters

to provide the EC with "the impetus to put us back on the road of a Strong Voice to Europe."

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United Press International
Two of the accused Israeli settlers walked arm in arm Sunday as they entered the district court in Jerusalem.

Jewish Settlers Ask Delay Of Trial on Terrorism

Compiled by Our Staff From Dispatches

JERUSALEM — The trial of 22 Israeli settlers accused of being involved in terrorist activities opened Sunday. The defense immediately asked for a three-month adjournment because of what it called "a lynch atmosphere."

Judge Yaakov Bazzak ended the session after six hours and said the court would study the defense's request for a delay because of adverse press trial publicity.

Heavy publicity in newspapers and television and radio "has created a hostile atmosphere, an atmosphere of lynch," a defense attorney said.

The 22 are alleged to have formed a Jewish underground in the Israeli-occupied West Bank that carried out a series of attacks on Arabs and Islamic holy sites between 1980 and 1984.

Six of the 22 were charged with the murder of four Arab students at the Islamic College in Hebron in 1983; the others were charged with attempted murder and membership in a terrorist organization.

"I am not a member of the PLO," he said. "I am just a professional lawyer."

Mr. Nasr said he was an observer for the former mayors, Kharif Khalaf of Ramallah and Ibrahim Tawil of El Bireh. Mr. Khalaf lost his legs in a 1980 car bombing. Mr. Tawil escaped injury.

The other Arab lawyer was Ali Sabri, representing Basim Shakir, who lost his legs on June 1980 in an attack in Nablus.

(UPI, Reuters)

EC Legislature Lacking In Lawmaking Powers

International Herald Tribune

PARIS — Most of the 434 members of the European Parliament, who are elected to five-year terms, are legislators in their home countries. But while sitting in Strasbourg, they have little of the power they held at home.

In fact, their role is only an advisory one, which mainly involves delaying and debating proposals of the European Community's executive branch, the EC Commission, and the Council of Ministers.

Among the legislature's most dramatic successes were rejections of the EC budgets in 1980 and 1982, in attempts to force EC leaders to find a solution to Britain's contribution. The budgets were later adopted.

The Parliament also can vote a censure of the 14-member Commission and remove it from office, but cannot replace its members. It has previously tried to remove it.

Reliable turnout figures were not available.

U.S. Bars Libyans From Moving Into New York Office

The Associated Press

NEW YORK — At the State Department's request, city police will bar Libyan diplomats from occupying their new 23-story Manhattan headquarters until the Libyans clarify how the building will be used, officials said.

The Communists have benefited from grief for Enrico Berlinguer, the party secretary, who died a week ago. If the party gains at the expense of the Christian Democrats, the result could include a reorganization of Mr. Craxi's coalition.

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Reliable turnout figures were not available.

Secret d'un cœur par Fred.

Un cœur sera de diamants s'entrouvre sur un cœur d'or gris pour y graver le message à la dame de votre cœur.

What's in a Name? Richardson Will Soon Know

He Tells Voters 'Call Me Muggsy' in Fight for Massachusetts Senate Seat

By Margot Hornerblower
Washington Post Service

BOSTON — Elliot Lee Richardson, the Boston Brahmin with more cabinet offices in his résumé than any living politician, would rather be known as "Muggsy."

He adopted the nickname a week before announcing his candidacy for the U.S. Senate when he showed up at Boston's St. Patrick's Day celebration only to be kidded for having nothing but last names.

"Elyut," intoned Billy Bulger, a Democrat of Irish descent and president of the Massachusetts Senate, mimicking Mr. Richardson's upper-crust accent. Then he held up a fake newspaper headlined: "Vote Elliot, He's Better Than You."

Taking the microphone, Mr. Richardson said: "There are many things I admire about the Irish. Their warmth, their wit. What I particularly like are the names. The first names — Billy, Teddy, Sonny, Tip, Knock." Then he added: "I'd like to be known as Muggsy."

The polls show Mr. Richardson, whose campaign buttons read "I love Muggsy," leading a field of Republican and Democratic contenders with names such as Kerry.

Shannon, Shannen and Connolly in this overwhelmingly Democratic and ethnic state.

Mr. Richardson left Boston 15 years ago to become President Richard M. Nixon's undersecretary of state, secretary of health, education and welfare, secretary of defense, and attorney general.

He went on to President Gerald R. Ford's secretary of commerce and ambassador to the Court of St. James's, and he served President Jimmy Carter as negotiator for a sea-law treaty. Now he has thrown the state into political ferment with his bold attempt in the Senate race.

The Massachusetts senatorial primary, with contested races in both parties, has become one of the most closely watched in the country. Senator Paul E. Tsongas, a popular Democrat, announced in January that he had lymphoma, a form of cancer, and would resign to spend more time with his family.

No Republican has been elected to statewide office in Massachusetts since 1972 and Republican Party registration has dropped to 13 percent. But Republicans nationally see the state as one of their best chances to capture an open Senate seat.

In the primary balloting Sept. 18, Mr. Richardson, 63, a self-made millionaire who won a respectable 38 percent of the vote against Senator Edward M. Kennedy in 1982.

The Democrats are sharply divided. Lieutenant Governor John Kerry, former head of Vietnam Veterans Against the War, and U.S. Representative James M. Shannon, a young liberal, lead a four-man field that includes a former speaker of the Massachusetts House, David Barley, and the Massachusetts secretary of state, Michael Connolly.

Beating Elliot is going to be tough," said U.S. Representative Brian J. Donnelly, a Democrat. "We have a tradition of voting for the old puritans. They have the image of integrity, of government service."

Mr. Shannon, the son of working-class Syrian and French Catholics, says he was outraged by Mr. Richardson's entry into the race.

He said "we reject the stereotype" that the Massachusetts Republican Party "is merely a social club for the elite and well-born, closed to those who are not white or Protestant," he wrote in a letter to 5,000 Republicans statewide.

Although recent polls show him trailing by 10 points, Mr. Shannon was endorsed by many Republican town and county officials before Mr. Richardson entered the race.

Mr. Shannon and Mr. Kerry are busy debating among the Democrats which of them is "most electable against Elliot." The 39 percent of voters registered as independent can vote in either party's primary.

"If Elliot Richardson gets elected to the Senate, are you ever going to see him in Massachusetts?" Mr. Shannon asked a group in Boston's South End. "He has a résumé a pack mule couldn't carry, but he's not going to light any fires in the U.S. Senate."

Mr. Shannon, 32, has been endorsed by the U.S. House speaker, Thomas P. O'Neill Jr., and by many of the most politically active feminist groups and labor unions.

A poll by MRK Research of Boston showed Mr. Richardson beating Mr. Kerry by 5 points head-on. Mr. Shannon by 19 points and Mr. Barley by 25 points. Mr. Connolly, a long shot, was not included.

The Democrats point to Mr. Richardson's involvement in policymaking for the Vietnam War and his refusal to endorse an immediate cutoff of CIA aid to rebels in Nicaragua.

Mr. Kerry said of Mr. Richardson: "The moment I get him into a debate, he'll fold."

He said he was an anti-war leader "while Elliot was defending the war in Cambodia. When he says he was secretary of defense, I can say 'Listen, Iella, I was in those rice paddies.'"

He adds: "If I were Elliot Richardson, I wouldn't want to run against me."

Mocked by Mr. Shannon as a Clark Kent look-alike and hampered by a dull speaking style, Mr. Richardson has worked hard to brighten his image. He even appeared at the city dump to help people unload garbage.

U.K. Admits Two Soviet Deserters

Afghans Used Opium To Keep Them Docile

The Associated Press

LONDON — Two Soviet soldiers who deserted to rebels in Afghanistan have arrived in Britain and will be allowed to stay for a year, the Home Office said.

The Home Office said Saturday that Sergeant Igor Rykhov, 22, and Oleg Khat, 21, arrived Thursday after asking Prime Minister Margaret Thatcher for asylum.

Lord Bethell, a member of the European Parliament who worked on behalf of the two soldiers, said they were in a hospital "somewhere in the London area" undergoing treatment after being forced to take opium continuously during the year they were held by the rebels.

Lord Bethell, who is a specialist on Soviet affairs, said the Afghan rebels had no prison facilities and that the opium was forced on the deserters to keep them docile.

Lord Bethell said he went to a rebel-controlled area of Afghanistan in February and saw a number of Soviet prisoners.

"These two seemed to be the best candidates for immediate release because their captors were willing to release them," he added.

He said he suggested that they write letters to Mrs. Thatcher and they did, "explaining that they had been conscripted into an unjust war and they had taken the first opportunity of deserting and now wished to live in a free country."

Lord Bethell said he delivered the letters to Mrs. Thatcher.

The Mail on Sunday published a report that included a photo of the two soldiers in civilian clothes standing in Trafalgar Square.

The newspaper said they did not know until the last minute that they were being freed, and when their captors put them in a jeep they thought they were going to be executed.

"We had no idea that we were going to be released, far less that we were going to London," they were quoted as saying.

Soviet Offensive

An Afghan rebel leader said Saturday that Soviet troops had killed more than 1,000 civilians in Afghanistan's western province of Herat during the past two weeks, Reuters reported from Peshawar, Pakistan.

The Jamiat-i-Islami resistance group leader, Burhanuddin Rabani, said in a news conference that the Soviet offensive was directed at the provincial capital of Herat and the villages around it.

He said the Jamiat had approached the United Nations office in Tehran to ask the UN to intervene to stop what he called a massacre of civilians by the Soviet forces but he had no information about the UN response.



Wilson Ferreira Aldunate flashed a victory sign Saturday in the Uruguayan capital after he was taken from the ferry.

Uruguay Arrests Exile As He Returns for Vote

By Edward Schumacher
New York Times Service

MONTEVIDEO — Wilson Ferreira Aldunate, an exiled Uruguayan presidential candidate, was arrested Saturday aboard a ferry as he was returning to his homeland for the first time in 11 years.

A patrol boat and a destroyer intercepted the ferry carrying Mr. Ferreira and 400 political supporters and journalists after an all-night crossing of the Rio de la Plata from Argentina.

A crowd estimated at nearly 100,000 chanting and singing Uruguayan had gathered in a bouldering leading to the defunct National Congress to greet Mr. Ferreira.

They dispersed peacefully after false reports that the ferry was being diverted to the seashore resort of Punta del Este, 100 miles (160 kilometers) away.

Mr. Ferreira is the candidate of one of the country's two largest parties, the centrist Nacional Party, for elections in November.

He has been banned from politics until 1999 by the military government of General Gregorio Alvarez.

Passengers offered no resistance; they sang the national anthem as they crossed the river.

Government officials said they did not forcibly remove Mr. Ferreira from the boat because of the danger that he might fall into the river if he resisted.

The government had warned Uruguayans in a communiqué Friday that "preconceived" violence and subversion accompanying the political leader's return. Demonstrations were banned.

Police and army patrols, some accompanied by light tanks, drove through the city Friday night in a show of force. The port was blockaded by cargo containers.

People of all ages turned out on a chilly morning for the demonstration, many of them waving the blue and white flag of Mr. Ferreira's faction in the National Party. Afterwards, cars rushed through the quiet city for most of the afternoon, beeping horns and waving flags.

Uruguay is a ranching country of 2.6 million people. The turnout of nearly 100,000 people was nearly 10 percent of this capital's population. It underlined in part Mr. Ferreira's popularity, and also reflected the unpopularity of the military rulers.

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CONTREFAÇON DE LA MARQUE

DE LA SOCIÉTÉ CHANEL PAR LES MAGASINS RÉUNIS ÉTOILE

PAR JUGEMENT DU 9 NOVEMBRE 1981, Le Tribunal de Grande Instance de Paris, dit que :

"Les Magasins Réunis Étoile" ont commis des actes de contrefaçon en vendant dans sa succursale sis avenue Niel à Paris, une série de sacs portant deux C entrelacés représentant la marque figurative de CHANEL soit ☺.

— Condamne, "Les Magasins Réunis Étoile" à payer à CHANEL la somme de 40,000 F à titre de réparation de préjudice résultant de l'entente de sa marque,

— Interdit aux "Magasins Réunis Étoile" de faire usage, sous quelque forme que ce soit et à quelque titre que ce soit, de ladite marque sous astreinte définitive de 1.500 F par infraction constatée à partir d'un délai d'un mois à compter de la signification du jugement,

— Autorise la publication du dispositif du jugement dans trois revues ou journaux français ou étrangers, ou choix de CHANEL, et au choix des "Magasins Réunis Étoile", sans que le coût global des publications dépasse la somme de 15,000 F;

— Condamne les "Magasins Réunis Étoile" à verser à CHANEL la somme de 4,000 F par application de l'article 700 du nouveau code de procédure civile;

— Condamne les "Magasins Réunis Étoile" aux entier dépens,

PAR ARRÊT DU 9 MARS 1983, LA COUR D'APPEL DE PARIS :

"Confirme,

— En toutes ses dispositions le jugement du Tribunal de Grande Instance de Paris du 9 novembre 1981,

— Précise toutefois, que la publication du dispositif du jugement ordonné par les premiers juges devra faire mention de sa confirmation par le présent arrêt;

Ajoutant au jugement :

Condamne les "Magasins Réunis Étoile" à verser à la Société CHANEL :

— La somme de 5,000 F pour appel abusif et dilatoire,

— La somme supplémentaire de 4,000 F sur le fondement de l'article 700 du nouveau code de procédure civile;

Condamne les MAGASINS RÉUNIS ÉTOILE à tous les dépens d'appel."

Families of Utah Leukemia Victims Say Nuclear Tests Were Responsible

The Associated Press

SALT LAKE CITY, Utah — The surviving relatives of 18 leukemia victims have filed a federal lawsuit blaming the deaths on fallout from atomic tests in Nevada.

The suit was filed Friday in Salt Lake City on behalf of 19 relatives of 10 victims who had lived in the Utah town of Pleasant Grove. It does not ask for a specific amount for the survivors.

Last month, U.S. District Judge Bruce Jenkins ordered the federal government to pay damages in 10 of 24 representative cancer cases. The cases were selected from among 1,192 original plaintiffs who contended that atmospheric tests

between 1951 and 1962 caused cancer in themselves or their relatives.

The previous lawsuit was restricted to people living more than 90 miles (145 kilometers) from the Nevada Test Site near Las Vegas. Former Interior Secretary Stewart Udall, a Phoenix attorney who was among plaintiffs' attorneys in the original case, said the lawsuit filed Friday was the first to involve plaintiffs living a greater distance from the blasts — 250 miles.

Wayne Owens, also an attorney in both cases, said that Pleasant Grove had a child leukemia death rate well over 10 times the U.S. average during the 1960s.

Senator Hart renewed his determination to continue his fight for

the House to keep the健在的 House members from granting amnesty to illegal aliens who can prove they have been in the United States since Jan. 1, 1982.

Representative Sal Burton, a Democrat of California, who lost much of her family in concentration camps during World War II, told the House: "All of you can hear and see I have an accent. I was born in Poland." She went on:

"The most detestable thing in the world is to have an ID card. The Jews in Europe, in Poland where I was born, were wearing yellow

stars. Is that what we really want?" Mrs. Burton escaped having to wear a yellow star herself because she was visiting San Francisco when the Nazis invaded Poland and did not return to her native land.

Representative E. de la Garza listed the names of the young men from his neighborhood in Mission, Texas, who had died in World War II and Vietnam.

"They come into my mind when someone says, 'You have to identify yourself beyond the norm to get a job,'" he said. "No sir, not after the supreme sacrifice of Joaquin Castro, Roberto Gonzales, Ricardo Alanz, Daniel Garcia, Roberto Villareal and Merced Sallie. Not after I look at their Purple Hearts on the wall am I going to ever yield."

After rejecting the identification card, the House approved establishing a toll-free number that employers could call to ensure that job seekers were not showing false Social Security cards.

Identification was only one of many emotional issues raised last week as the House debated the Senate-passed bill, which seeks to gain control of the nation's borders by imposing fines on employers who knowingly hire illegal workers.

The debate is certain to again grow intense Tuesday as the House takes up another controversial provision: that of granting amnesty to illegal aliens who can prove they have been in the United States since Jan. 1, 1982.

The House ultimately rejected even a feasibility study of such a system.

But during the debate, the emotions of many House members provided a rare glimpse of the diversity of experience, rather than the political parties, that they represent. It reflected the often-submerged sensibilities of a nation in which there are dozens of major religions and the census counts 18 races.

As House members took turns recounting their individual nightmares, those who listened grew hushed, forgetting for a moment that the hour was growing late and that they were eager to go home.

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Herald Tribune

PUBLISHED WITH THE NEW YORK TIMES AND THE WASHINGTON POST

Upward to a Summit?

Suddenly on Thursday the tone of Soviet-American relations changed, at least a bit and for a while. Within a period of a few hours, a Soviet spokesman and Ronald Reagan indicated new openness to a summit. Moscow tentatively softened its previous insistence that Mr. Reagan was *unfit* as a diplomatic partner, though it added an emphasis on "proper preparation" of a summit. The president eased his earlier demands that the agenda and results of a summit be pre-cooked — a move that dismays the diplomats, who do the pre-cooking. He also hinted at a new readiness to negotiate limits on certain weapons in space.

Nothing of substance has changed. But there has been no summit in five years. Neither Mr. Reagan nor Konstantin Chernenko has met his counterpart. Summits, experience shows, can produce misunderstandings and disappointments. Still, it is unnatural and unwise for the top leaders to have no personal contact. It is not as though otherwise they may blow up the world. But the reasonable way to do business is to get together. When the two cannot even arrange a first meeting, that is widely taken as a sign itself of difficulty in the relationship and as a default on their shared obligation in the rest of the world.

— THE WASHINGTON POST.

Mrs. Gandhi's Version

The bloody fighting between the Indian Army and Sikh extremists in the Punjab left the rebellious state subdued, its Sikh majority stunned by the show of force that took at least 500 lives. Elsewhere, violence has been contained. To this extent, Prime Minister Indira Gandhi can claim vindication.

But only to this extent. Mrs. Gandhi is left with a credibility problem that raises doubts about the future — especially heading into a national election by the end of the year.

The credibility problem is serious. For eight days after the action, the Punjab was closed to journalists. When foreign reporters finally were admitted Thursday, they were forbidden to take photographs or question the briefing officers. Without independent assessment of New Delhi's version of the events in Amritsar, questions persist about the number of casualties, the scale of the assault and the true circumstances of the death of Jarnail Singh Bhindranwale, the Sikh extremist leader.

India is not the first democracy to seal off a battlefield. Britain set the dubious precedent in the Falklands war, followed by the United States in Grenada. In each instance, any benefits to security were far outweighed by losses in credibility. Was the use of force in the Punjab proportionate to the challenge? India's genera-

als assert that a siege was impractical and that "hushing out" 2,000 Sikh militants was possible only by frontal assault. Tear gas grenades bounced off bricked-in windows, they say, and when an armored personnel carrier entered the compound, the defenders struck back with sophisticated anti-tank rockets.

All this may be so. But India deserves to be judged by its own democratic standards. From the outset, Mrs. Gandhi has insisted that her purpose was to hold India together and block a breakaway movement in the Punjab. Crushing the militants is not enough. Without serious negotiations with Sikh moderates, the fertile Punjab, India's granary, could become another Northern Ireland. Yet if the prime minister appears to disdain conciliation,

Of 700 million Indians, only 2 percent are Sikhs, and most of them live in the Punjab. Hindus are rallying to Mrs. Gandhi, their fervor increased by rumors that Moslem Pakistan may have had a hand in arming the Sikhs. If the prime minister exploits this, she may win an election and jeopardize Indian unity.

Like the Golden Temple at Amritsar, India has been mauled by the effects of its army's assault but remains intact. Mrs. Gandhi's formidable task is to keep it that way.

— THE NEW YORK TIMES.

Population Policy Fiasco

White House officials have drafted a position paper for the coming International Conference on Population that marks a sharp reversal of U.S. policy on population aid. If the draft becomes official policy, the United States will have succeeded in embarrassing many of the friendly nations gathering in Mexico City in August. It will also have turned its back on an urgent global problem.

The paper decries that the population boom is a major source of economic and social stress in developing countries. Instead, blame is laid on centralized economic policies in those countries and "anti-intellectualism" in the West. Growth-oriented economic policies and rapid resource development, rather than family planning, should be primarily relied upon to reduce population growth, the argument runs. Moreover, it continues, the United States, which has long refused to fund abortion programs, should now stop all population aid to governments or agencies that include abortion in their own programs — a rule that would end most U.S. population control aid.

It is true that economic progress and population control go hand in hand, especially when economic benefits are broadly distributed. But, as a new study by the Rockefeller Institute and National Academy of Sciences shows, effective birth-control programs are the most important check on population growth.

A major reason why industrial progress can-

not be relied upon is that the population base and rate of growth in countries now developing are vastly higher than those of Western countries in their pre-industrial period. Fifty years ago, the world had 2 billion people. Today, thanks to declining mortality and the exponential nature of population growth, there are 4.7 billion people. Even with declining rates of growth, the next billion people will be added in 15 years — 90 percent of them in developing countries already struggling with crowding, social and economic problems.

The irony of the proposed U.S. policy reversal is that it would come at a time when most developing countries have intensified their commitment to family planning programs.

Rafael Salas, executive director of the UN Fund for Population Activities, observes that this interest now transcends religious, social and cultural differences. Moreover, more family planning aid — which is still not available to hundreds of millions of women who want it — will reduce current reliance on abortion throughout the developing world.

As California governor, Ronald Reagan urged the citizens of his state to recognize the misery caused by rapid population growth and the obligation of the United States "to credibly lead other parts of the world toward population stabilization." Ten years later neither the misery, nor the obligation, has diminished.

— THE WASHINGTON POST.

Other Opinion

Reagan's 'Adroit Turnaround'

President Reagan has executed an adroit turnaround. He has made it sound as if his bags have been packed ever since he took office. The only reason there hasn't been a summit meeting is Soviet obduracy.

Whether the Russians would have agreed to a meeting, no one knows. Mr. Reagan had

— The Baltimore Evening Sun.

FROM OUR JUNE 18 PAGES, 75 AND 50 YEARS AGO

1909: Tsar, Kaiser Meet in Finland

ST. PETERSBURG — The meeting between the Tsar and the Kaiser took place at Bjorko, Finland, on board the Imperial Russian yacht Standard [on June 17]. The interview will have great effect on the political questions at present awaiting solution. Germany has the intention of giving Russia her support in Turkey. In spite of her lack of direct interests in Crete, the only way Germany could have any influence on the settlement of the question would be by opposing dismemberment of the Ottoman Empire. In regard to the Persian question, Germany, in view of the "entente" between Russia and Great Britain, will confine herself to taking up a correct attitude.

1934: After the Mussolini-Hitler Talks

ROME — Although information about the encounter in Venice between Premier Mussolini and Chancellor Hitler still appeared somewhat contradictory, it was agreed that the two dictators had reached accord upon a common opposition to the new system of alliances in which France and Russia play a leading part. The effect of such an alignment at Venice would mean the removal of Italy and Germany from participation in the latest European political development. The principal feature which distinguishes the present groupings from those of the past consists in the presence of Russia as co-participant with France and the countries of the Little Entente.

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Reagan and Arms Control

In response to the opinion column "No End of Escalation, No Talks, No Jokes" (May 28) by Tom Wicker:

Mr. Wicker is certainly entitled to his own opinion regarding the prospects for arms control but he is not entitled to his own facts. He contends that President Reagan "halted talks on a threshold test ban treaty" when, in fact, the threshold test ban treaty was signed in 1974. Although the treaty has remained unratified through three succeeding administrations, President Reagan has proposed that the United States and the Soviet Union initiate discussions on improvements in the verification provi-

sions of the treaty as a preliminary step toward ratification, a proposal the Russian flatly rejected.

Mr. Wicker goes on to claim that President Reagan "rebuffed the Kniev-Kvitinsky walk in the woods' compromise on intermediate-range missiles." Even Ambassador Kvit-

insky admits that it was the Russians who rejected the proposal: "This package was unacceptable to the Soviet side, and Mr. Nitze was told at once that it would either be rejected altogether or severely amended."

"The Soviet Negotiator Blames America for a Failure," IHT, Jan. 13.

Unsatisfied with these distortions, Mr. Wicker continues: "They [the proposed strategic arms reductions] would have sharply reduced Soviet land-based, but not U.S. sea-based missiles." Here again he is ill-informed. The U.S. proposal would require a one-third cut in each side's ballistic missile warhead level. This would, of necessity, require significant reductions in U.S. sea-based

missile warheads, even if the United States eliminated all of its current land-based missiles as well.

JOSEPH D. LEHMAN, Public Affairs Director, Arms Control and Disarmament Agency, Washington.

BODIL B. BURE, Copenhagen.

International Herald Tribune

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Reagan Is Willing, but He Needs a Plan

By James Reston

WASHINGTON — In his news conference Thursday, President Reagan said he was "ready, willing and able" to meet with the Soviet leaders at a summit or anywhere else.

Leaving aside the question of whether he is "ready" or "able" to discuss the intricate questions of nuclear arms, the Middle East and world trade with Konstantin Chernenko, Mr. Reagan has made it clear that he is "willing" to listen to his aides and his pollsters, who are telling him that this stalemate with the Russians is bad election politics, and that he is also willing to listen to his allies, who are telling him that failure to talk to Moscow is bad diplomacy.

The Republican leader of the Senate, Howard Baker of Tennessee, and the Republican chairman of the Senate Foreign Relations Committee, Charles Percy of Illinois, talked to the president about this recently, and like Prime Minister Pierre Elliott Trudeau of Canada, argued that maybe the president should change his tune and agree to meet with the Soviet leaders.

Mr. Reagan's response at his latest news conference was a masterpiece of public diplomacy and presidential politics. Twenty-one of the 35 questions put to him asked about his conditions for talking to Moscow. He brushed them all aside. He would, be said, go anywhere and talk about anything, without conditions. "Anything that might clear the air and create a better understanding between us that's fine," he said.

Moscow's reaction was interesting. Leonid Zaytsev, the shrewd propagandist of the Kremlin, switched as fast as Mr. Reagan did. Forgetting what he had said in the past, Mr. Zaytsev was suddenly talking in a different way.

League of Nations. This is not a bad model for this delicate point in U.S.-Soviet relations.

The Russians would like to play off the Democrats against Mr. Reagan, who is not their favorite character, and Walter Mondale would no doubt prefer to run against Mr. Reagan's stalemate with the Russians. But now that the president is offering to talk to Mr. Chernenko, and vice versa, the Democrats can no longer blame Mr. Reagan for accepting the negotiations they have denounced him for rejecting in the past.

But is Mr. Reagan really "ready" and "able"? He has made a brilliant political and tactical maneuver. He was in trouble, not primarily because his policies were wrong — even the allies did not question his replacement of missiles in Europe to maintain a balance of power — but because his rhetoric was too strident. This has been corrected, and in his news conference he almost seemed to be imploring the Russians to end the stalemate and talk about anything anywhere, a willingness that will help him in his campaign for re-election.

Mr. Reagan has at least opened up the door to the Russians and says he is waiting for somebody to "come up the steps." But if the Russians do, who will be there to negotiate with them? The American experts on Soviet policy — George Kennan, for example — are no longer in Washington. If negotiations really do start, it is not clear who will meet with Anatoli Dobrynin and Andrei Gromyko, who have been dealing with U.S.-Soviet relations for 40 years.

But at least the talk about talks has started. That's the main thing.

The New York Times

Presidency: Why the Best Don't Apply

By William Pfaff

NEW YORK — The television industry is the chief beneficiary of the present American system for electing a president. The profits from politics roll in. The nation pays. The special interests pay. The candidates pay. The industry collects. The country is worse off for it.

This year's campaign for the presidency will spend in the billions of dollars, most of it, by far, on the purchase of television time. (In 1980 the total campaign expenditure was \$1.2 billion.) The result, so far this year, has been to eliminate all the Democratic candidates except Walter Mondale, a small man who could no doubt prove a serviceable president. The modern standard to be met is not high.

The indications, however, are that the country will re-elect Ronald Reagan, a decent and thoughtful man (as James Reston admirably put it a few weeks ago, "an authentic phony who honestly believes he's sincere"). He heads an administration managed in matters of foreign and security policy (leave aside domestic affairs and the ticking bomb of the deficit), by well-meaning businessmen in over their heads, counseled by ignorant ideologues. It is a dangerous administration, which has damaged the U.S. position in the Middle East and Central America, and has unnecessarily embittered relations with the Soviet Union. But Mr. Mondale has yet to convince the public that he would do any better.

The lesson of the Democratic campaign has been that the American presidential nomination system does not find and nominate the best man. It actively discourages the best from entering the race. The supposed democratizing of the primaries has, in practice, limited the race to men sufficiently ambitious and well-enough financed (by whom?) to devote two or more years of their lives to the mere quest for nomination. Are they the best the republic can offer?

The idea is absurd. The best men and women are at work. The best are not, perhaps, that devoutly ambitious. The best may not want the job. The presidency has become. It is the presidency that needs them.

The difficulty in reforming the system is great, and the Democratic Party is where it is today in part as the unintended consequence of well-meant reforms. Yet there is surely something to be learned from the experience of virtually every other mature democracy on earth. To begin with, they either tightly control or completely forbid the purchase of broadcasting time for the promotion or advertising of candidates for public office.

This means a reduced influence of money upon politicians. Presently, it seems likely that the Senate race for the North Carolina seat held by Jesse Helms will, by November, have cost something like \$20 million. A candidate for Parliament in Britain already spends, on average, something like \$6,000 on his or her campaign. What Parliament gets is likely to compare favorably with the rest of U.S. manufacturing industry.

The International Trade Commission, in a 3-2 vote, decided that the Bethlehem-USW petition was valid, and will recommend some form of relief to Mr. Reagan. He will be relieved — about a month before the election — to decide what to do.

The president could reject the recommendation. But the betting is that

political imperatives will weigh more heavily on Mr. Reagan than his own free-trade instincts or his pledges to submit partners.

Nonetheless, the office of Trade Ambassador William Brock is likely to make the case that new protection will boost prices, making it even tougher for the auto industry and other industrial steel consumers. Already, as Mr. Brock has pointed out, substitution of plastics for steel in cars has been as significant a factor in the steel industry's problems as import competition.

Another threat to the big companies is the success of the so-called minimills in the United States. They are unencumbered by the high union wage levels, which run 70 percent over the average for the rest of U.S. manufacturing industry.

Coupled with that, the new import restrictions will stimulate foreign investment in steel production in the United States, especially from Japan. One can argue that in demanding temporary protection, the steel industry is completing its kamikaze run.

The Washington Post.

Steel Quotas Can Slice Two Ways

By Hobart Rowen

WASHINGTON — You do or look at things this way: First, the summit leaders make a firm anti-protectionist declaration, as they did a year ago at Williamsburg. Then they go home, and do the opposite.

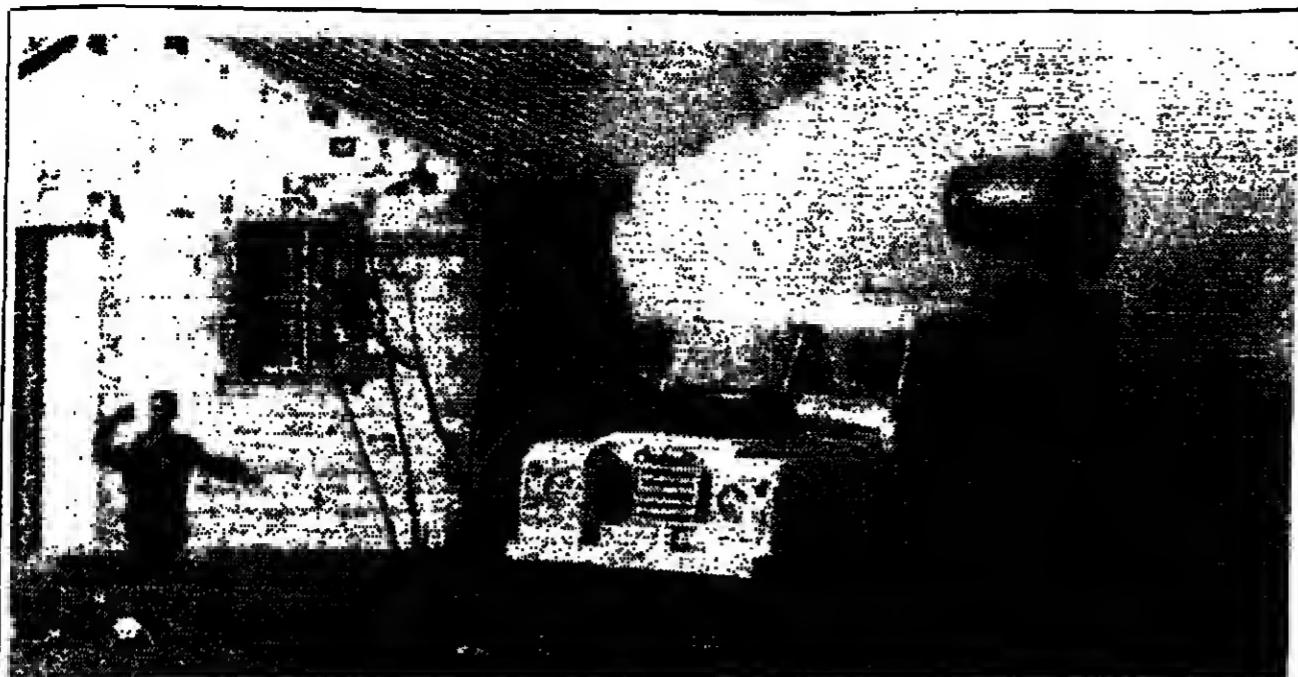
That is what happened in the spring of 1983, when the United States adopted new quotas and tariffs on the importation of special steels from Europe. (The Europeans were hardly better on a range of items.)

Now, the ink is barely dry on the London summit declaration, evoking the same dying spirit of free trade, when circumstances again are moving the United States toward greater import protection for steel.

More steel quotas would be wrong, unhealthy, counterproductive, and a denial of what is supposed to be a main achievement of summit declarations. Yet, unless President Reagan shows extraordinary courage in an election year, the steel industry is likely to get its way.

The American steel industry is now operating at about 75 percent of a sharply reduced capacity. About half of the 400,000 steel union members are out of work. That is a made-to-order issue for the Democrats, and potential candidate Walter Mondale is exploiting it.

Naturally, Mr. Mond



A Soweto resident prepares to stone a police vehicle shortly after a commemoration service at Regina Mundi Cathedral.

Anniversary of Soweto Riots Is Marked by Some Clashes

Reuters

JOHANNESBURG — Black townships throughout South Africa were reported quiet by police Sunday, after sporadic clashes Saturday during the annual day of mourning for more than 500 people killed in riots in 1976.

A black man was killed in an explosion Saturday at the magistrate's court in the small town of Bethal, 75 miles (120 kilometers) east of Johannesburg.

Police said Sunday the victim may have planted the bomb himself, but it was unclear whether

the incident was connected with the anniversary. The court building was not seriously damaged.

Police used tear gas Saturday as a crowd of about 3,000 left after a four-hour service in Johannesburg, the starting point of the 1976 rioting that spread throughout the country and lasted several months.

About 200 youths chanted and waved clenched fists as they left the Regina Mundi Cathedral, and a few stones were thrown. Police, backed up by armored personnel carriers and dogs, responded im-

mediately by firing tear gas, and four persons were arrested.

The 1976 violence was sparked by a government edict that some school subjects be taught in Afrikaans, the language of South African whites of Dutch descent.

Police said there were fewer serious incidents Saturday than on several previous anniversaries.

The most serious clash was reported in the Cape Province town of Graaff-Reinet, where a group of about 60 youths pelted police with stones. Four policemen were slightly injured and 27 persons were arrested, police said.

Police, departing from previous practice, adopted a high profile this year at memorial services in Johannesburg's satellite township of Soweto, where an estimated 1.5 million blacks live.

"To the past we used to show a low profile," said Brigadier D.J. Jacobs, the Soweto police commander. "This year we decided to show our presence to see if we can prevent trouble."

A black civic leader, Nithato Motlana, criticized the show of force Saturday. Brigadier Jacobs said police had not used any more men than in previous years.

Pretoria Pushing Hard for Pacts With Neighbors

By Glenn Frankel
Washington Post Service

PRETORIA — Many South African analysts and officials believe that the key to the country's future is a growing network of formal agreements with neighboring black states.

The country, which already has nonaggression pacts with Swaziland and Mozambique and a military disengagement treaty with Angola, is pushing neighboring Lesotho and Botswana to sign similar agreements. Officials say they also eventually would like to convince Zimbabwe, the region's most influential power after South Africa, to sign such an accord.

The ostensible purpose of these pacts is to deny military bases and border access to black insurgents seeking to overthrow South Africa. But their real impact, analysts say, is psychological: to break the diplomatic barrier that has separated Pretoria from the rest of Africa since blacks took power in most of the continent in the 1950s and 1960s.

"These accords are much more than pieces of paper," said a South African diplomat. "To us they signify a new direction in Africa. What we want is normalization. We want trade. We want friendly and official relations."

The new South African diplomatic initiative is viewed here as a logical extension of Pretoria's previous emphasis on military pressure against neighboring states accused of harboring insurgents.

"Military means have paved the way for diplomacy," said Michael Hough, director of the Institute for Strategic Studies at the University of Pretoria. "What is new is that for the first time since the mid-'70s South Africa can negotiate from a position of strength, and pragmatism has [overridden] ideological considerations for its neighbors."

Still, the new initiatives contain a strong sense of military and economic coercion. Botswana's president, Quett K.J. Masire, complained during a visit to Washington last month that the South Africans had hinted they might place troops on the border or

disrupt traffic and commerce if Botswana refused to sign a nonaggression pact.

Similarly, officials of Lesotho, which sources here believe is on the verge of signing a security pact, have accused South Africa of economic blackmail and of supporting anti-government dissidents.

R.F. Botha, the South African foreign minister, denied his government was attempting to force either nation into an accord. But officials here said they have lost patience with countries that are willing to reap the economic benefits of trade and commercial links with South Africa but treat Pretoria diplomatically as a pariah.

"It's not a question of standing behind them with a knife at their back," said one official. "But we have pointed out the realities of the situation, which is that we want normalization and we will reward those countries that enter into agreements with us."

Beyond the signing of security agreements, South Africa sees the eventual possibility of gaining formal diplomatic recognition and

opening embassies in neighboring nations. Officials talk of a "constellation of states" in which Pretoria would take its place as first among equals.

U.S. diplomats were instrumental in bringing Mozambique and South Africa together to negotiate their three-month-old agreement and have encouraged Pretoria to seek diplomatic rather than military solutions to regional problems.

South Africa has compelling domestic as well as international reasons for seeking formal accords. Written plans help convince white voters, who are being wooed by the government's new conservative opposition, that there are, in the words of one analyst, "positive fruits to be gained from this process."

Officials believe the accord also serves notice on South African blacks that violent struggle will not succeed in toppling the government or bringing about radical change.

Nonetheless, many analysts contend that South Africa's regional victories will prove short-lived if the government fails to reach accommodation with its own black majority. "It almost goes without saying these agreements make sense provided there is movement within South Africa as well," said John Barrett, director of the South African Institute of International Affairs.

Envoy Skips Talk After Soviet TV Requests Changes

The Associated Press

MOSCOW — A planned address on Soviet television by Sir Iain Sutherland, Britain's ambassador here, to mark the birthday of Queen Elizabeth II was canceled after Soviet authorities demanded changes that the envoy refused to accept, a British Embassy spokesman said.

The incident on Saturday followed similar episodes in the past year when the French and Japanese ambassadors scrapped plans to deliver televised speeches on their national holidays because of changes demanded by Soviet officials.

The embassy spokesman said Mr. Sutherland had refused to delete a passage that said that East-West relations would benefit "if all of us have access to accurate information, and if all members of society ... can travel to each other's homeland."

Officials at Moscow's Television Center also told the ambassador he would have to delete a remark referring to Britain "welcoming the Soviet Union as an ally in the struggle against Fascism" in 1941, the spokesman said. The Soviet media traditionally portray the Soviet Union as the main force in the defeat of Nazi Germany.

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International Bond Prices - Week of June 14

Provided by White Weld Securities, London, Tel.: 623-1277; a Division of Financière Crédit Suisse-First Boston
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Am	Security	%	Middle Price	Ave	Vield
			Net	Net Life Curr	Yield
0127	Hydro-Quebec	14	95 71 Jul	120	111
0128	Desjardins Group	14	95 71 Jul	120	111
0129	Desjardins Group	14	95 71 Jul	120	111
0130	Export Import Bank	14	95 71 Jun	120	111
0131	Finnair	14	95 71 Mar	120	111
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0133	Girobank Switzerland	14	95 71 Jun	120	111
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0135	Japan Air Lines	14	95 71 Jun	120	111
0136	Japan Air Lines	14	95 71 Jun	120	111
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0255	Japan Air Lines	14	95 71 Jun	120	111
0256	Japan Air Lines	14	95 71 Jun	120	

BANKING AND FINANCE IN LUXEMBOURG

A SPECIAL REPORT

MONDAY, JUNE 18, 1984

Page 7

Eurobond Business Recovers Ground

LIKE RICHTER readings to the anxious inhabitants of an earthquake zone, the figures that Luxembourg's international banking community watches with care are those that measure its share of the Eurobond market.

After a heart-stopping tumble in 1982, when the Luxembourg banks saw their share of the year's total Eurobond issues fall to the lowest point since 1972, last year produced a welcome recovery. Luxembourg will never again enjoy the dominant role it briefly played in the Eurobond market of the mid-1970s. In 1975 it accounted for 40.4 percent of all issues in what was then the fledgling \$6-billion-a-year Eurobond business. But its leading banks are confident that the rot of two years ago, when Luxembourg's share fell to 16.3 percent of Eurobond issues worth almost \$44 billion, has been stopped.

For 1983, according to Edmond Israel, a member of the executive board of the Banque Internationale à Luxembourg, the Grand Duchy's share of all Eurobond business recovered healthily to stand at 24.5 percent of issues, totaling about \$44.2 billion. That figure was an improvement on the 21.8-percent share reached in 1981 and marked a return to the days of 1977, when Luxembourg banks had 29 percent of a Eurobond business that had mushroomed by then to \$14 billion a year.

Hanging on to a sizable chunk of the Eurobond market is vital to the Luxembourg banking sector, for with much of its previously comfortable interbank activity either stagnant or evaporating, it must look to the Euromarkets as a future mainstay. Portfolio management and increased personal banking of other kinds are all growth areas that Luxembourg bankers currently

(Continued on Page 14)



Changing of the guard in front of the Grand Duchy's palace.

John Coates-von Hossack

A Boom in Private Banking, Questions for Future

By Sherry Buchanan

SWISS PRIVATE brokers never worry about competition from Luxembourg," said a Swiss banker recently.

The blue bloods of private banking have been managing rich people's money successfully enough and long enough to justify some arrogance. But Luxembourg has many of the same features to offer private banking clients as Switzerland does. Its secrecy law is as tough as Switzerland's and, so far, more reliable. But private banking in Luxembourg still is not what it is in Switzerland. There is not the same prestige. Nor do banks in Luxembourg offer the wide range of portfolio management and investment services that Swiss banks do.

The challenge in the next few years for foreign banks in

Luxembourg is to decide whether to compete head-on with the Swiss and step up their portfolio management services. The alternative is to keep building up their share of the business they already have in handling custody accounts. Unlike an account managed by the bank, a custodian customer handles his own account. The money is usually invested in time deposits at a fixed rate.

A number of foreign banks in Luxembourg have increased their share of that business in the last few years. Some of the large U.S. banks, such as Chase Manhattan, Bank of America and Bank of Boston, are in Luxembourg just for that.

Citicorp is considering getting back into the private banking business as well. And Oswald von Goertz, director of Chase's subsidiary in Luxembourg, said: "Our customer

base has quadrupled in the last four years. But it is difficult to predict whether the growth rate will continue at the same pace."

West German banks, especially the smaller of the 30 German banks in Luxembourg, have also tried to increase their private banking business. Banks in Luxembourg that were heavily into the Euromarkets decided to diversify into private banking out of the risky syndicated loan business, especially after the explosion of Third World debt problems.

In the custody account business, Luxembourg banks can usually offer lower fees to their clients than Swiss banks do. The client of a Swiss bank usually has to pay a 0.5-percent

(Continued on Page 10)



Stock quotations on the big board at the Luxembourg Stock Exchange.

John Coates-von Hossack

Economic Indicators Continue to Slide

By Michael Metcalf,

LUXEMBOURG'S 365,000 citizens, many of whom were electing a new government Sunday as they also voted in European Parliament elections, have reason to share their neighbors' qualms about economic prospects.

The Grand Duchy is anything

but immune to the economic chill afflicting the rest of Europe. In fact, in some areas of the economy it is worse off.

Luxembourgers went to vote in the national and European elections with the knowledge that the country's gross domestic product is expected to suffer a drop in volume in 1984 for the fourth consecutive year.

According to government estimates, GDP will decline about 1 percent when banking services are excluded.

This is slightly more encouraging compared with last year, when GDP fell 2.5 percent, against a 1.7-percent drop in 1982.

Total merchandise exports of which almost 50 percent are steel products subject to quotas, did not

increase at all last year. In the first six months they were 1.7 percent lower in value than in the corresponding 1983 period, according to government statistics.

Inflation is also compounding the Grand Duchy's economic problems.

The government statistics board, STATEC, expects to see inflation "slow down only slightly, with a considerable risk of unexpected difficulties" in 1984.

When measured against its European neighbors, Luxembourg was in about the middle of price increase tables in 1983, its 8.7-percent rise in inflation lying between France's 9.4 percent and Belgium's 7.7 percent.

Finance Ministry officials said the trend in public finances was giving rise to major concern. The officials, in recent interviews, pointed out that between the end of 1981 and the end of this year the national debt will have grown 55.7 percent, from 29.8 billion francs to an estimated 46.4 billion francs.

And, as the domestic Banque Internationale à Luxembourg noted in a section on the economy in its 1983 annual report: "Over the same period, the budgetary reserve and the reserves in public investment funds will have gone down

(Continued on Page 9)

Newest Banks Bringing New Twist To the Time-Honored Formulas

By Vivian Lewis

THE NEW headquarters building of the newest bank in Luxembourg, International Bankers Inc. (IBI), on the Rue du Prince Henri, could be said to be haunted with the ghosts of the worst kind of Luxembourg banking. Before IBI took the building over and brought in a British designer to tone down its style, it was intended to house the ill-fated Banco Ambrosiano.

But the newest bank in Luxembourg—with its holding company chaired by the former head of

Credit Commercial de France, Jean-Maxime Léveillé, and its operations headed by another hand from that bank, Jean de Roquetaillle—in fact marks something of a break with the past. The year-old bank, which in its first year had balance-sheet business of \$300 million and profits of \$2 million, is a new sort of institution for Luxembourg—and not the only one.

IBI engages in what Mr. Roquetaillle calls "classic simple, traditional banking" instead of the sort of Euromarket business that Luxembourg banks normally go in for.

(Continued on Page 9)

LUXEMBOURG'S GROSS NATIONAL PRODUCT

(In billions of Francs)

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1975 Prices
Private consumption	33.7	37.3	43.0	49.8	56.2	60.9	64.9	71.1	79.1	86.6	92.5	
Public consumption	7.4	8.6	10.7	12.9	14.7	16.3	17.5	19.5	22.2	24.5	26.3	
Gross fixed capital formation	17.6	20.9	23.0	24.0	24.3	25.7	27.0	30.0	36.0	36.1	38.4	
Change in stocks	0.9	0.8	-1.7	-2.5	0.0	-3.0	3.3	-0.2	2.2	4.3	4.6	
Total domestic demand	59.6	67.7	75.1	84.2	95.3	99.8	112.6	120.4	139.4	151.5	161.8	
Exports of goods and services ¹	49.6	65.6	92.6	76.5	83.9	84.0	88.6	105.4	110.1	113.8	128.5	
Imports of goods and services	46.7	56.8	74.2	73.8	79.5	81.8	89.2	102.3	114.1	120.9	136.0	
Gross domestic product at market prices (ESA)	62.5	76.5	93.4	86.9	99.7	102.1	112.0	123.5	135.4	144.3	154.2	
Net factor income from abroad	5.4	8.7	10.9	15.3	21.1	24.5	26.4	29.8	30.3	47.3	65.0	
Gross national product at market prices	67.9	85.2	104.3	102.2	120.8	126.6	138.4	153.3	165.7	191.6	219.2	
Private consumption	42.9	45.2	47.4	49.8	51.3	52.6	54.1	56.1	57.9	58.9	57.4	
Public consumption	11.1	11.5	12.1	12.9	13.2	13.6	13.9	14.3	14.8	15.1	15.2	
Gross fixed capital formation	24.5	27.3	25.9	24.0	22.8	23.2	23.4	24.6	26.9	24.9	23.9	
Change in stocks	1.0	0.7	-1.6	-2.5	-1.4	-2.8	1.1	-0.2	3.3	2.9	2.8	
Total domestic demand	79.5	84.7	83.8	84.2	85.9	86.5	92.4	94.8	102.7	101.9	99.3	
Exports of goods and services ¹	71.4	81.7	92.3	76.5	78.0	77.9	81.1	87.6	84.5	82.8	83.0	
Imports of goods and services	70.2	78.0	84.0	73.8	75.5	75.2	80.3	85.3	88.4	86.7	85.9	
Gross domestic product at market prices (ESA)	80.7	88.3	92.2	86.9	88.5	89.2	93.2	97.1	99.0	97.9	96.4	
Net factor income from abroad	7.2	11.0	12.1	15.3	19.6	20.7	20.4	21.0	19.4	24.2	26.6	
Gross national product at market prices	87.9	99.3	104.3	102.2	108.1	109.9	113.6	118.1	118.4	122.1	123.0	

¹ Exports of banking services are excluded.
Note: Data may not add because of rounding.
Source: OECD.

Host to 114 Banks, Duchy Forges Place As Key Crossroads In Western Finance

By Giles Merritt

CONSTRUCTION workers still rub shoulders with bankers along the Boulevard Royal, the broad avenue that houses Luxembourg's leading banks. The finishing touches are being put to a new luxury hotel fit to house the Grand Duchy's constant stream of visiting financial executives, and negotiations are continuing space with the local planning authorities that will see the central city's last outdoor parking lot give way to a multistory bank building.

The careful wording is advised, of course. For Luxembourg boasts no skyscrapers. A thriving financial center it may be, but its lack of anything higher than Kredietbank Luxembourg's 12-story headquarters is quite in keeping with its position in any world league of financial districts.

Luxembourg has come almost from nowhere in the last 20 to 25 years to establish itself as an important offshore banking center at the crossroads of Western Europe. But it does not claim to be the same league as major centers such as New York, London, Frankfurt, Tokyo or Paris, for instance, and in terms of financial and management services infrastructure it would not compare with any of the larger domestic banking centers around the globe.

Far from being the wolves that people outside the financial fraternity so often imagine, banks are more often like sheep. They welcome newcomers to a center because their presence confirms the wisdom of their own choice and because it enlarges the local banking and financial market. In Luxembourg they tend, therefore, to play down the importance of setbacks and emphasize the likelihood of new additions that will take the

(Continued on Next Page)

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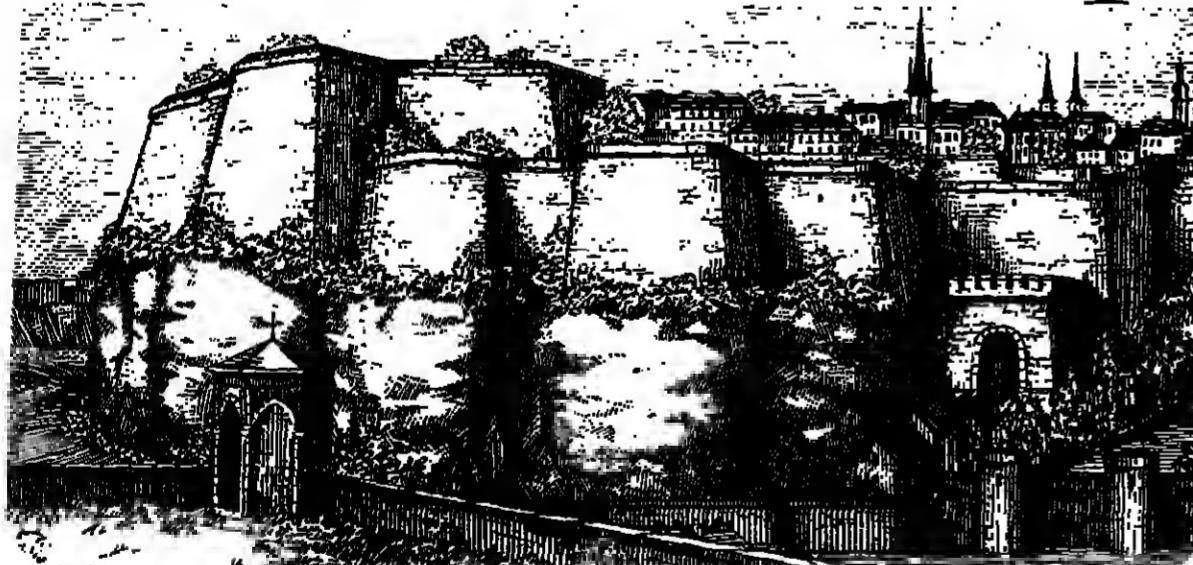
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BANKING AND FINANCE IN LUXEMBOURG



Lobby of building that houses government and private offices.

John Capper-Horn Hause

Host to 114 Banks, Duchy Forges Place As Key Crossroads in Western Finance

(Continued From Page 7)
total of banks back up to 115 and perhaps beyond.

"I still think new banks will come here—I believe there will be one or two, and maybe three, this year," insisted Edmond Israel, a senior executive board member of the venerable Banque Internationale à Luxembourg (BIL). And at Kreditbank, senior executives such as Jean Adant emphasize that against the defections must be set the arrival of such oev blood as International Bankers Incorporated (IBI), a trade financing company that was set up recently.

Ventures like IBI or a parallel Franco-Arab project being launched by former Crédit Commercial de France talent are very welcome in Luxembourg because they also strengthen the banks' diversification away from the syndicated credits that have represented about four-fifths of all financial activity. More and more the banks emphasize their new personal banking and portfolio management services and even in the area of corporate financing they stress that the days of big off-the-peg financing packages have given way to individually tailored ones to suit the individual customer.

It is, though, the sort of conversational flourish that is used to disguise the bankers' own uncertainties about Luxembourg's future. "The interbank market has peaked," said Dresdner Bank's Luxembourg director, Klaus J. Zapf. And he said that, although for most of the banks established in Luxembourg any move away is cut off the question, "if they had had to

make a decision in 1984 to whether to set up here, the answer might be different," Kreditbank's head of treasury and trading, Etienne Verwegen, agrees with that analysis and reckons that West German banks especially would probably not flock to Luxembourg the way they did a decade or more ago.

It is not, in fact, the straightforward question of whether West German banks will leave Luxembourg that worries the financial experts. It is whether the West German authorities' new gearing requirements for German banks outside the Federal Republic will depress the business they do in Luxembourg.

Ventures like IBI or a parallel Franco-Arab project being launched by former Crédit Commercial de France talent are very welcome in Luxembourg because they also strengthen the banks' diversification away from the syndicated credits that have represented about four-fifths of all financial activity. More and more the banks emphasize their new personal banking and portfolio management services and even in the area of corporate financing they stress that the days of big off-the-peg financing packages have given way to individually tailored ones to suit the individual customer.

Dresdner Bank's Klaus Zapf warns, however, that with the changes in West German banking rules things will happen during the coming years to the performance of German banks in Luxembourg. The mix in which the new conditions apply will vary, but in general all the banks have to cope with slower growth in their loans business, with substantial increases to be made to their equity base and, as a consequence, a much higher level of retained profits in Luxembourg. To other words, the high-

profit, accelerating-lending days earnings for 1983 at about 15 percent up to the 57 billion francs reached the year before. Such an improvement is by no means as spectacular as the country's 1982 banking profits, which soared from 36 billion francs in 1981, but it was nevertheless substantial.

The figures that the Luxembourg bankers are less proud of are those measuring total assets, for these are growing at a markedly slower rate than before. By the end of last year the banks' combined assets had increased 10.1 percent over the 12-month period, and even that comparatively modest rise has been almost entirely attributed to the depreciation of the Luxembourg franc against the dollar.

To take just one year and set those results against a much longer period may be misleading. Yet Luxembourg itself seems in little doubt that its runaway growth is settling down into a much more sedate pattern. As recently as 1979, Luxembourg was chalking up an annual expansion in its total volume of business of almost 30 percent, yet last year even an encouraging surge in its Eurobond business to \$10 billion from \$7 billion in 1982 failed to push overall business growth beyond 7 to 8 percent. The bankers are not above pointing out, with just a hint of malice, that in part it is their own caution that is responsible for any lackluster growth figures — less than 10 percent of their total assets represent lending to the tottering debtor nations of Latin America and elsewhere. The international debt crisis is something most Luxembourg bankers read about in the newspapers.

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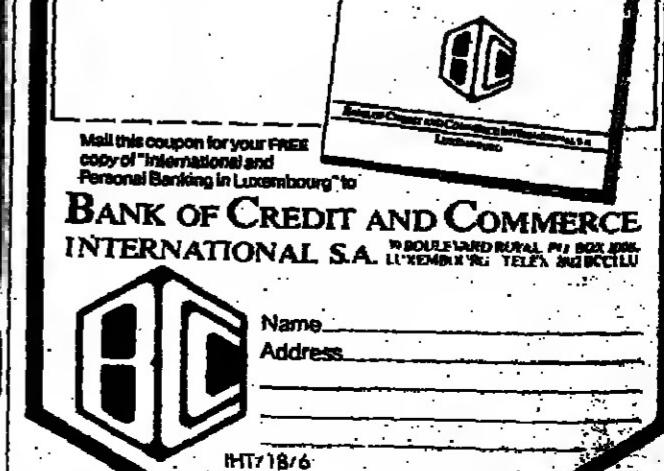
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BANKING AND FINANCE IN LUXEMBOURG

West German Banks Shift Strategy, Turn to Caution and Retrenchment

WHEN West German bank regulators tighten controls, Luxembourg shudders.

In 1980, 1981 and 1982, the West German banks in Luxembourg were, collectively, the tiny country's largest taxpayer. Although the figures for 1983 are still not added up, it is clear that the West German banking subsidiaries have lost their rank as taxpaying champions.

Other banks are following the move. Deutsche Bank pioneered to reassure the market: the inclusion in the parent company annual report of an explicit guarantee for Luxembourg operations. Commerzbank did the same in its 1983 annual report. And the idea that West German banks in Luxembourg operate through subsidiaries, not branches, has been questioned by Deutsche Girozentrale, which opened a branch, and by Landesbank Rheinland-Pfalz, which is setting up a branch this year.

Still the largest contributor in Luxembourg's Eurobanking ranks, with 20 odd banks and a combined total capital of 3.5 billion Deutsche marks, the West German banks now account for 48 percent of Luxembourg's total Euromarket business, down from 55 percent in 1980. Their numbers have shrunk too, with the troubles of Schröder, Minchmeyer, Hengst last autumn and the departure of Landesbank Stuttgart International last year.

There are other signs that West German banks are pulling in their horns in Luxembourg. Some are following WestLB International in switching their balance sheets from Luxembourg francs to the less risky Deutsche marks. And under new Bundesbank rules, the banks are having to give up some customs of reporting on Luxembourg activi-

ties, such as closing their books on different days from the parent banks; because of the danger of double counting of capital, the Bank for International Settlements and the Bundesbank want a more transparent end-of-year account.

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Both in lending levels, which fell from the equivalent of \$37.9 billion at the end of 1982 to \$33.9 billion at the end of last year, and in deposits (down from \$26.7 billion to \$23.2 billion in the same period), the Deutsche-mark business of Luxembourg has fallen by more than the depreciation of the mark. At individual banks, an even more substantial decline can be noted: The private bank M.M. Warburg-Brinckmann, Wirtz cut its Luxembourg loan portfolio from 3.4 billion DM to 2.5 billion DM in 1983; only exchange factors kept Commerzbank from cutting back as well.

The shift in strategy in Luxembourg is from expansion and aggressive lending to caution, retrenchment, reassurance of the market. The dramatic rescue of SMH last autumn had something to do with the new mood, but in addition new West German bank regulatory measures are forcing changes even before they are formally passed by the Bundesbank. These are expected to go into effect at the start of 1985. One will require that Luxembourg's West German banks apply the same rules as their parent banks in lending volume, effectively limiting total lending for most categories of borrowers to 18 times the bank's capital. Under Luxembourg law, the subsidiaries can lend 33 times their capital.

Then, too, the lesson of excessive concentration of lending has been drawn from the SMH affair. The Bundesbank now proposes that banks, including their Luxembourg subsidiaries, be kept from newly lending more than 50 percent of their capital to any single borrower. Earlier, the limit was 75 percent, and Luxembourg operations were taken into account only informally. (According to a Bundesbank official, who asked not to be named, SMH was deceptive in reporting and "not gentlemen.")

The impact of the new regula-

tions will vary. At Deutsche Bank Compagnie Financière Luxembourg, Ekkehard Storck, senior international officer, predicted: "We won't have as much difficulty as other banks because we are not so far off from 18 times" — the new lending ratio. "And we can raise regulatory cheaper and under better conditions."

Another West German banker, who asked not to be identified, calculated that the impact of the new rules would depend on the proportion of total business that a given bank did in Luxembourg. He estimated this at 8 to 10 percent of volume for the *Landesbanken*, which are controlled by West German states, and the large Bavarian banks, which by law are allowed to carry mortgages on their books, unlike other West German banks. For *Großbanken* such as Deutsche Bank, Dresdner Bank and Commerzbank, the banker estimated Luxembourg accounts for 20 to 25 percent of total consolidated lending, and for partnership banks or *Privatebanks* such as Warburg-Brinckmann or SMH, as much as 50 percent of all balance-sheet assets.

Since private banks are also most likely to have a concentrated loan portfolio (because many of them are closely linked to one industrial group, such as *Ötischofungsöhne Aktienverein* for Warburg-Brinckmann and Löwenbräu for Merck, Fick & Co.), it could be anticipated that they will have the most difficulty with the new regulations. But they are, in fact, often in a better position than some of the *Großbanken* because they can shift more convincingly to off-balance-sheet operations, such as portfolio management, than their larger rivals. And Ulrich Damm, senior international officer at Commerzbank, concedes rather ruefully that, after the SMH failure, "some SMH customers transferred to Commerzbank — but none from other private banks."

Dresdner Bank, which had most emphasized services for private clients, has fallen behind Deutsche Bank since March 1983 in the ranking of West German banks in Luxembourg. It continues to play the private-clientele card, however, if only because there is no real alternative. Dresdner Luxembourg's chief economist, Dirk Lepelmeier, said: "We are not expanding our international credits. We can't improve our balance sheet by adding volume. But because of the secrecy law, private banking is an area of potential growth, even at the expense of Switzerland."

Although innovations are wel-

(Continued on Next Page)

LUXEMBOURG'S LABOR FORCE (Employment and Unemployment, in Thousands)

	1974	1975	1976	1977	1978	1979	1980	1981	1982
Labor force (A+B) ¹	155.1	157.6	156.9	157.5	157.5	158.3	159.9	160.4	160.9
A. Unemployed	0.1	0.3	0.5	0.8	1.2	1.1	1.1	1.6	2.0
B. Total employed	155.0	157.3	156.4	156.7	156.3	157.2	158.8	158.8	158.9
a) Self-employed & family helpers	25.1	24.5	24.0	23.4	23.0	22.3	21.6	20.9	20.2
Agriculture	10.1	9.6	9.2	8.9	8.7	8.2	7.7	7.2	6.7
Other	15.1	14.9	14.8	14.5	14.3	14.1	13.9	13.7	13.5
b) Employees	129.9	132.8	132.4	133.3	133.3	134.9	137.2	137.9	138.7
Agriculture	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Industry	50.8	50.0	48.6	47.2	44.8	43.5	42.9	42.2	41.5
Construction	15.0	14.7	13.5	13.3	13.3	14.0	14.7	14.8	14.4
Services	46.3	49.7	51.5	53.7	55.7	57.5	59.1	60.1	61.7
General government	17.0	17.6	18.0	18.3	18.7	19.1	19.7	20.0	20.3
Unemployment rate ²	0.1	0.2	0.3	0.5	0.8	0.7	1.0	1.2	

1. Domestic definition (including border workers, net).
2. Unemployment as a percentage of labor force.
Source: OECD.

Economic Indicators Continue to Slide

(Continued From Page 7)

considerably, despite 1983's increase in taxation."

But if, unlike its major trading partners, Luxembourg has not seen a slight increase in growth or a sizable drop in inflation, its citizens should draw some comfort from two encouraging factors: employment and steady growth in the banking sector.

By comparison with most of its neighbors, Luxembourg has kept joblessness down throughout the recession. Last year, the unemployment rate was 1.6 percent, compared with 0.7 percent in 1980 — figures that many of its neighbors would envy.

Continuing growth in the banking sector, albeit at a slower pace than in previous years, has created employment, with an estimated 3,000 additional new jobs in the sector since 1976, government statistics show.

Slightly more than 9,000 people are employed in the banking sector, representing about 3.6 percent of the working population, compared with 3.5 percent in 1973. The sector continued to perform well last year, with balance-sheet growth and operating profit increases helping boost the services component of production.

Provisional estimates from the Luxembourg Monetary Institute show that the cumulative balance-sheet total, or total assets, of Luxembourg banks was 6.59 billion francs as of Dec. 31, an increase of 10 percent from a year earlier. Operating profit also rose, by about 15 percent from 1982.

Steel production fell 2.8 percent last year from 1982, while exports dropped 5.3 percent in volume and 10.7 percent in value. Since 1974, Luxembourg has cut employment in the steel sector more than 50 percent, while the industry's share in GDP has sunk from 21.4 percent in 1974 to about 10 percent.

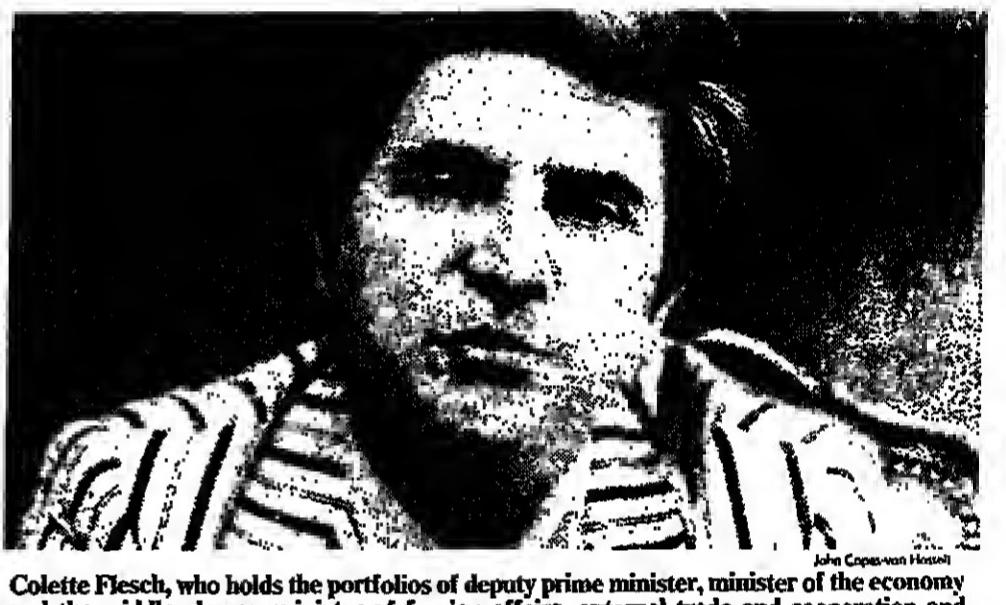
As part of an overall plan to bail out the industry, the government decided last year to spend 11.5 billion francs on restructuring the tottering Luxembourg-based giant ARBED, Europe's fourth-largest steel producer.

As it is estimated that these increases will bring in only 4.5 billion additional francs over a full year, the government had recourse to the capital markets in 1983 and 1984 to raise supplementary funds, and drew on its budgetary reserves.

"We had to work hard over the last six months to get the steel industry back on its feet again," said Raymond Kirsch, head of the National Development Board.

With signs that the steel industry may have put the worst years behind it,

(Continued on Next Page)



Colette Flesch, who holds the portfolios of deputy prime minister, minister of the economy and the middle classes, minister of foreign affairs, external trade and cooperation and minister of justice.

Newest Banks Bringing New Twist To the Time-Honored Formulas

(Continued From Page 7).
balance-sheet trade financing operations while tripling profits to \$6 million. But the kind of banking it is doing is not easy in Luxembourg. Mr. Roquefeuil said: "If Jaans seriously wants to attract other commercial banks, he has to attract traders. This may mean cutting taxes."

He was referring to the Grand-Duchy's Pierre Jaans, director-general of the Luxembourg Monetary Institute. Mr. Jaans is in fact more excited by the other trend among Luxembourg newcomers, the arrival of investment funds. Their number, he says, grew from 100 to 160 in the course of 1983, and many of them are not only based in Luxembourg, but also partly operated here, with Luxembourg acting as paying agent or providing services. The funds are of various sorts: active in stocks, bonds or

money markets, or mixed, and from many different countries. Most operate in dollars, marks or Swiss francs; one asked to work in European Currency Units, but Mr. Jaans ruled the request premature.

Almost at the same moment BIL was moving to its new building, the latest investment fund in Luxembourg was launched: The Japanese trading house Sumitomo Corp. will invest in short-term instruments, such as certificates of deposit and commercial paper, in dollars, marks and Swiss francs, on the advice of the London merchant bank Kleinwort, Benson.

Sumitomo selected Luxembourg for tax reasons — as did, among others, funds such as Putnam Emerging Health Sciences Trust, Indosuez Multibonds, Shearson International, Dollar Reserves, Schroder Japan Fund, Save & Prosper (Jersey) Commodity Fund,

(Continued on Next Page)

BIL reports good results for 1983

Eurobond market activities strengthened



Dr. Albert Dondelinger
Managing Director
Chairman of the Executive Board

Banque Internationale à Luxembourg, the oldest and largest private commercial bank in Luxembourg, performed well in 1983, the Bank's 127th year of activity.

Total assets were up 8.6%. Cash flow showed a healthy growth, enabling BIL to increase provisions against lending risks and to raise net profit by 13.1% over 1982.

BIL took significant steps to strengthen its own resources in line with the expansion of its activities. Thus in 1983, the Bank successfully realized two capital increases, issued a subordinated loan of Lfrs. 600 million and allocated Lfrs. 185 million to the reserves.

Banque Internationale à Luxembourg again attained good results on the Eurobond market. Backed by extensive placing capacity, BIL managed or co-managed 63 issues. Among these were 12 denominated in Canadian dollars as well as 26 in ECUs whose total volume doubled that of the previous year. The Bank further expanded its prominent position in the secondary markets, acting as market

makers for some 160 Euro-issues, including a substantial number of ECU issues.

In line with the firm commitment to broadening its private banking facilities, BIL co-founded five new Luxembourg investment funds and four international investment funds, bringing to 43 the number of funds now under the Bank's administration.

BIL (ASIA) LTD., a wholly-owned subsidiary in Singapore, completed its first full year of operations successfully. The Bank, which concentrates on international financing and asset management, had a balance sheet total of some \$S 217 million at year-

end (Lfrs. 5.67 billion). Net earnings were satisfactory.

Our representative offices in Singapore, London, and New York contributed substantially to the Bank's growing international business.

Through its own offices in key financial centers and worldwide through extensive correspondent relationships — including the network of ABECOR, the world's largest banking group of its kind — BIL offers comprehensive banking and finance services.

For a copy of the 1983 annual report in English, French or German, please contact our head office in Luxembourg. Telephone 4791-597.

Financial Highlights

	1981	1982	1983
- in Lfrs million - per 30.12.83 - Lfrs 100 = US \$ 1.7973			
Net Profit	360	405	458
Distributed profit	159	160	205
Net dividend per share	Lfrs. 225	Lfrs. 225	Lfrs. 250
Cash flow*)	1,152	2,392	2,886
Total Assets	176,240	199,495	216,568
Loans and advances	41,792	56,346	56,934
Due from banks	104,300	108,300	120,942
Due to banks	40,768	34,668	38,734
Customers' deposits	118,761	143,451	158,335
Own resources incl. borrowed capital	3,604	4,831	6,196

* Net profit plus allocation for depreciation and provisions after deduction of the released portion of the previous years.

The itemized balance sheet and profit and loss account are published in the "Memorial-Revue Spécial des Sociétés et Associations du Grand-Duché de Luxembourg."

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BANKING AND FINANCE IN LUXEMBOURG

Banking Secrecy Legislation Tightened But Untested by Foreign Governments

IN THE LAST few years, Luxembourg authorities have done much to encourage the growth of private banking. In 1981 they tightened the bank secrecy law. Gold trading, a favorite of rich clients, is free of value-added tax. Holding company law has been changed to allow investment funds. Banks can take off fiduciary deposits on an off-balance-sheet basis after a change in the law last year. The Luxembourg Monetary Institute is considering allowing banks to offer trust services to their clients.

In the three years since Luxembourg enacted legislation to strengthen bank secrecy laws, there have been no public incidents where foreign governments surreptitiously obtained secret information or demanded to see confidential bank files.

Switzerland, on the other hand,

has had its share of headaches defending its bank secrecy laws. In 1977 staff members of the Chiasso branch of Crédit Suisse, one of the three largest Swiss banks, were accused of breaking the secrecy laws.

The most spectacular incident was when French customs agents supposedly obtained lists of names of French citizens who held numbered Swiss accounts apparently in breach of France's strict exchange controls.

Perhaps Luxembourg has been spared attacks against its bank secrecy law because bankers there are more careful in selecting their clients. "Until now there haven't been any problems here. Maybe we've been lucky," said Ekkehard Störck, director of Deutsche Bank in Luxembourg. Oswald von Goertz, director of Chase Manhattan in Luxembourg, said: "Maybe

the authorities here are even more interested than in Switzerland in maintaining the banking system intact. They know that private banking has become a major branch of banking here."

Two other reasons there have not been any problems, bankers suggest, are that the legislation is still new and that the volume of business being transacted in Luxembourg is a lot less than in Switzerland.

"Luxembourg is smaller in terms of the money handled," said Odón de Vienna, director of Bank of America. "Switzerland has 400 banks and financial institutions and the number of customers is much bigger."

As far as what is on the books, Luxembourg's bank secrecy law is as tight as Swiss law. Secrecy is defended by criminal proceedings. A bank employee can be fined and

jailed for betraying a professional secret. The identity of a client with a numbered account is only known to a few select bank managers. Under Luxembourg law, tax evasion is not considered a crime but tax fraud is. Because there have not been any cases yet, it is impossible to know how Luxembourg authorities will define fraud as opposed to evasion. Swiss authorities define tax fraud very narrowly.

Again like the Swiss, Luxembourg authorities say that, if such a case came up, they would decline to help a foreign government trying to track down violations of exchange controls.

There are a lot of conventions that national administrations must keep each other," said Shaus, director of the Luxembourg Monetary Institute. "But a national administration is not obliged to

change its own behavior. If it is not the administration's behavior to require certain bank information, then it isn't obliged to assist a foreign administration in trying to do so."

The question is whether, politically, Luxembourg as one of the smaller members of the European Community would be able to stand up to some of its more powerful neighbors, especially France, which has strict exchange controls. "The recent case of the television satellite is a good example that shows that

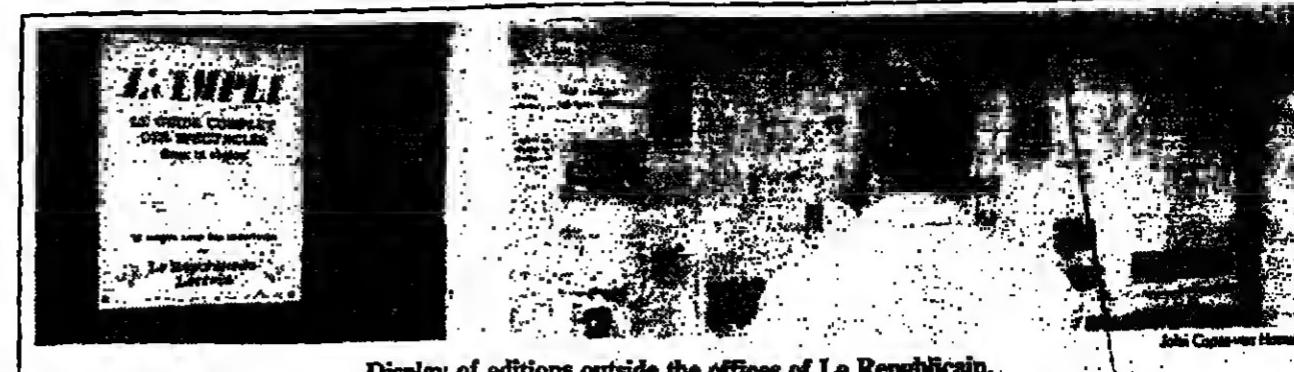
Luxembourg is a sovereign state and will not let itself be influenced," said Mr. Shaus, referring to the government's recent granting of a broadcasting franchise to the Coronet holding company.

Another plus about Luxembourg's bank secrecy law that bankers point to is that, so far, it has not become a domestic issue as in Switzerland, where a national referendum on abolishing the law was held recently; voters rejected the proposition 3 to 1.

Still another measure that has encouraged private banking in Luxembourg is that banks no longer have to carry fiduciary deposits

of large customers on their balance sheets. If a bank is in difficulty, because these clients' accounts are not on the balance sheet and therefore not part of the bank's assets and liabilities, the clients will not lose their money. Before opening

(Continued on Next Page)



Display of editions outside the offices of Le Républicain.

A Boom in Private Banking, Questions for Future

(Continued From Page 7)
fee for the deposit to be placed on a fiduciary basis in another country; if the money stays physically in Switzerland there is a 35-percent withholding tax, so Swiss banks customarily place their clients' funds abroad.

"You have to pay a fiduciary fee because the bank your Swiss bank places your money with doesn't know who you are," said Odón de Vienna, director of Bank of America in Luxembourg. "That's why placing money in Switzerland is expensive." Luxembourg has no withholding tax on nonresident deposits, so the problem does not arise.

Another reason costs can be lower in Luxembourg is that banks are easier to attract new clients, so they are willing to be more flexible at much lower levels of deposit.

"In Luxembourg, management fees are negotiable with banks. For a \$200,000 deposit, you can start negotiating the management fees," said Mr. de Vienna. In Switzerland, a client with less than \$1 million has little leverage and may have to accept the standard bank fees.

Aside from the fact that Luxembourg banks are willing to

try harder to attract new clients, some bankers argue that the banks' main costs — real estate and staff — are lower in Luxembourg than in Geneva or Zurich, enabling banks to be more flexible on the fees they charge.

In addition, some private Swiss banks have recently as much as doubled the fees to their custodian customers.

But it is clear that, the richer the client, the more valuable

and necessary a wide range of portfolio management and investment services becomes. Clients with more than \$1 million do not want their money sitting in a time deposit at a fixed rate of exchange.

So far, few banks in Luxembourg offer the range of services Swiss banks have. The decision the big foreign banks in Luxembourg face is whether to leave that business to their Swiss subsidiaries or hire portfolio managers in Luxembourg as well. Dresdner Bank, for example, opened private banks in Zurich and Geneva this year but is thinking of increasing its investment services in Luxembourg. Chase may be gearing up to add portfolio management in Luxembourg next year.

Has Luxembourg then been unable to attract the big

money that keeps flowing into the Swiss banks in spite of recent spectacular leaks in bank secrecy? "You can't say that the very rich are in Switzerland and the middle rich are in Luxembourg," said a West German banker. "It depends on how long the bank has been in the private banking business, because you can't build very important connections in only two or three years."

One problem may be that the private banking business in Luxembourg is still relatively young, but in addition Luxembourg is still attracting mostly middle-level money.

"Large money happens from time to time," said Ekkehard Störck, director of Deutsche Bank in Luxembourg. "But normally people are only interested in Luxembourg to diversify. There is no need to shift huge amounts to Luxembourg. It's just a place to have an additional account."

"The guy with \$1 million is the exception," said Mr. von Goertz of Chase. "My average portfolio is \$300,000."

While some money has been shifted from Geneva and Zurich to Luxembourg, most of the funds flowing into Luxembourg are from neighboring countries with high tax rates, such as Belgium.

Economic Indicators Slide

(Continued From Previous Page)
since 1979, were expected to maintain their positions in the national parliament. They held 24 and 15 seats respectively before Sunday, which allowed them a comfortable lead in some quarters.

The opposition Socialists, who were expected to gain most of the five seats being added to the 59-member Chamber of Deputies in Sunday's national elections, say the restructuring was too severe, particularly in the industrial south.

Steel closures there appear to have hurt the governing coalition, political commentators said, because the government has supported ARBED's sharing steel production with Belgian's steel industry, thereby reducing Luxembourg's domestic capacity more than the European Commission demanded.

The Conservatives and Liberals, who have governed in coalition

since 1979, were expected to maintain their positions in the national parliament.

As of Dec. 31, 1983, more than 3,000 people were employed by the new firms already in operation, and 500 to 1,000 more jobs were in the offing. The figures, although small, count for much in Luxembourg where about 2,950 unemployed made up 1.6 percent of the labor force as of the end of last year.

The new industries range from chemicals and plastics to glass and aluminum. Economists say the companies will revive the industrial life of the northern and the more deprived southern regions of Luxembourg.

"For my part, I remain convinced that the current situation and the medium-term perspective of the Luxembourg economy continue to demand a vigorous and disciplined financial and budgetary policy," Finance Minister Jacques Santier said recently.

New Twists to Old Formulas

(Continued From Previous Page)
came by Mr. Jaans, he is quick to point out that traditional banking is not doing that badly in Luxembourg. He said gross profits for banks (before amortization, provisions and taxes) rose in 1983 by 10 to 15 percent overall — the precise figures have not yet been released. "Frankly, I was surprised," Mr. Jaans said.

The authorities allowed banks to again put into their reserves (provisions) a goodly share of their gross profits to cover country risks and "increase banks' ability to meet potential losses," he said. "Any plausible pattern of country risk provisions has been accepted by the tax authorities if they move *pari passu* along certain averages." Luxembourg taxes on banks, too, are thereby kept at advantageous levels.

There is every indication that bank profits in gross terms, before provisions, will rise again this year. The toughness on terms and greater selectivity that Mr. Jaans said characterized lending from 1982 should again pay off for Eurobanks. Banks will also get 66 centimes on every franc owed by Banco Ambrosiano in Luxembourg, although 80 to 100 percent of what was owing had been covered by loan-loss provisions.

In Euro-Déutsche mark and the new business in ECU-denominated bonds, the Luxembourg presence is still greater than that of any other banking or listing center. Luxembourg is pushing up its position in Euro-sterling (at the expense of Paris), and in Euro-French francs as well, according to figures published by the Luxembourg Monetary Institute.

With 86 foreign bank subsidiaries and 20 foreign bank branches, Luxembourg is a force to be reckoned with internationally as well. On its stock market, the number of listed investment funds rose in 1983 to 26, from 14 in 1982 and 6 in 1981. The number of foreign companies whose shares are quoted on the Luxembourg Bourse rose to 128, from 122 in 1982 and 110 in 1981.

Thirty-four banks and 12 brokerages are admitted to the Luxembourg trading floor, among them Chase Manhattan and Citibank, Merrill Lynch and E.F. Hutton, and British houses such as James Capel and S.G. Warburg. (In Luxembourg, commercial banks and stockbrokers alike may trade on the bourse.) Earlier this year, the latest Wall Street house to set up a Luxembourg office in the Old Town was Bache & Co.

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BANKING AND FINANCE IN LUXEMBOURG

Nordic Banks Are Diversifying Away From the Home Market

"CHRISTIANIA Bank Luxembourg S.A. was established in May 1973 with a staff of two people, a typewriter and initial capital of 100,000,000 Luxembourg francs," wrote the Norwegian parent company in its annual report for 1983.

From these humble beginnings, as the first wholly owned subsidiary bank to be founded abroad by any Nordic bank, Christiania's Luxembourg subsidiary has expanded its markets. Nordic banks have for the

most part preferred to establish wholly owned subsidiaries rather than entering joint ventures.

This enabled them to carve out a special niche for themselves in the field of trade financing, medium-term loans for foreign projects and foreign exchange transactions, all almost exclusively in terms of domestic clients in the Nordic area.

Nordic banks are now the second-largest grouping in Luxembourg after the West Germans — no mean feat for a region of less than 20 million population, against West Germany's 62 million.

The growing Euromarket and tough currency and credit regulations in Norway were the chief factors behind Christiania's decision to establish a subsidiary in Luxembourg. The same factors, in varying degrees, led Swedish, Danish and Finnish banks to follow.

In recent years, however, a subtle change has entered the picture of Nordic banks operating in Luxembourg.

Most Nordic countries during the 1970s forbade domestic banks to make foreign-currency loans to domestic companies. The banks set up Luxembourg units to book such loans. Now these rules have, by and large, been relaxed, compelling the subsidiaries in Luxembourg to other areas of business.

Changes in the structure of the Euromarket, and the move by the Luxembourg banking sector as a whole away from an emphasis on wholesale banking and toward greater diversification in private customer and retail services, have helped the Nordic banks accelerate their restructuring.

While a major part of the

(Continued on Next Page)



The Boulevard Royal, the banking district.

Secrecy Legislation Tightened

(Continued From Previous Page)

stimulus to private banking. Banks would be allowed to provide trust services to their clients. There is no trust legislation in the French civil code, on which Luxembourg law is based, so authorities would have to create a law.

In addition, Mr. Shaus warns: "There will come a day when a client's money will be deposited in a bank that doesn't have fiduciary deposits on an off-balance sheet basis."

The Luxembourg Monetary Institute is considering a change in the laws that could be a further

bourg, although not enacted with the idea of encouraging private banking per se, will nevertheless do so: By reducing a bank's tax burden, it will help Luxembourg bankers keep fee structures flexible.

Reform in the law, banks that made capital gains only because of an appreciation of their currency over time were taxed at the regular capital gains rate of about 50 percent. Now banks will no longer be taxed at all on capital gains realized only because of an appreciation in foreign exchange under Luxembourg law; those gains are not considered real gains.

— SHERRY BUCHANAN



A Dutch florist making rounds in a truck.

Domestic Banks Broaden International Operations

THE EMERGENCE of Luxembourg as a major financial market has gone hand in hand with the growth of the Euromarket, and the expansion of the Grand Duchy's domestic banks into international domains was a logical and natural corollary.

"If in 1956 only 20 banks were active in Luxembourg with a combined balance sheet total of hardly \$1 billion, we count at present 114 banks with a combined balance sheet total of more than \$120 billion," said Edmond Israel, executive board member of Banque Internationale à Luxembourg (BIL).

BIL is one of the native banks to have played a key role in turning Luxembourg into an international banking center and, at the same time, to have broadened the international scope of its operations.

"When the Eurobond market first opened in 1963, we participated in the very first Eurobond issue, as agent for a 5½-percent, \$15-million bond issue by Autosarate," Mr. Israel said.

The bank has come a long way since it was established as Luxembourg's first bank in 1856. It is the country's largest commercial bank, boasting an 8.6-percent rise in its balance sheet total last year, to 216.57 billion francs. Gross operating profits climbed 17.2 percent to 5.76 billion francs, its annual report for 1983 shows.

"We aim to keep in the forefront, sponsoring new issues and acting as manager, co-manager and underwriter for a large number of Eurobond issues," said Jean Krier, general manager at BIL, who is also responsible for new issue syndication and Eurobonds.

BIL shares its standing as one of Luxembourg's big three domestic banks with Caisse d'Épargne de l'Etat — also founded in 1856 and the state's savings bank — and

the volume of Eurobonds denominated in dollars.

On the other hand, issue volume of bonds denominated in European Currency Units expanded vigorously, more than doubling if compared with 1982 issue amounts. It is hard to deny the interest expressed by domestic Luxembourg banks in seeing the ECU sector of the Eurobond market attain maturity and even pre-eminence.

"As in 1982, it is in the ECU sector that we obtained the best results, since we directed three Eurobonds in ECUs for the account of the Republic of Ireland and participated as co-manager of 23 other debentures expressed in this currency unit," BIL said in its 1983 annual report.

Mr. Krier said one of his bank's prime objectives was to increase the

proportion of BIL's management, either as lead manager or co-manager, in the Eurobond sector, primarily in the ECU market.

Moreover, on the international financial scene the Luxembourg franc is rapidly emerging as an investment and lending vehicle, particularly for European supranational borrowers, such as EURATOM, which last year made a public issue for 500 million francs at 11 percent over 10 years.

In 1983, BIL conducted six public issues and four private placements in francs and participated as co-leader in 12 loan-issuing syndicates in francs.

As for future developments in the Eurobond sector, domestic bankers expressed confidence that the sector had attained enough resilience and popularity to withstand changes in the international financial scene.

In this context, bankers like Mr. Krier and Mr. Israel said they felt that the abolition of withholding tax on interest paid on U.S. bonds would hardly have an impact on the Eurobond sector and might in fact increase the international business of domestic banks such as BIL.

In terms of their overall international banking strategy, the domestic banks are agreed in their desire to increase their profile in the secondary markets of the Eurobond sector. Banks in Luxembourg very soon became engaged in the underwriting and placement of these securities on the secondary market:

(Continued on Page 14)



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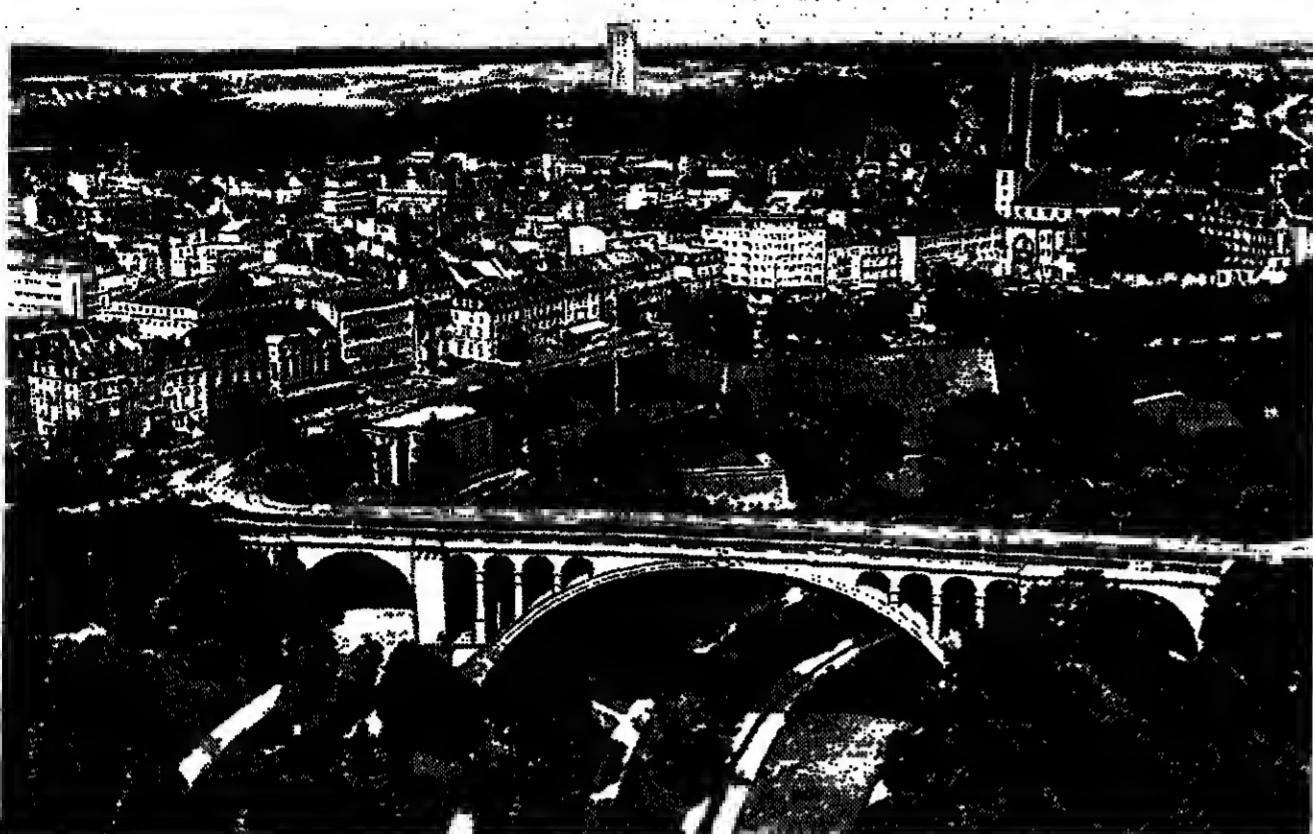


R. XVIII

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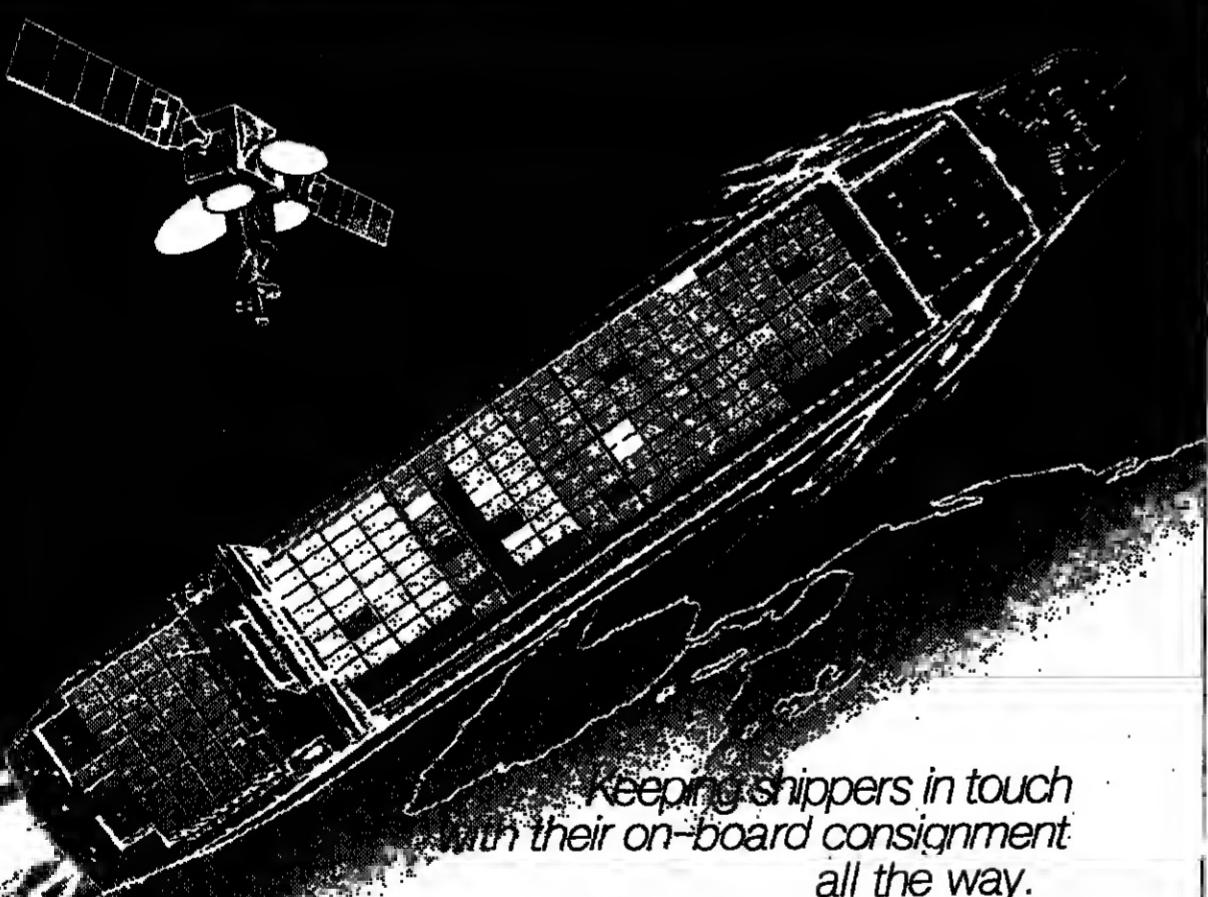
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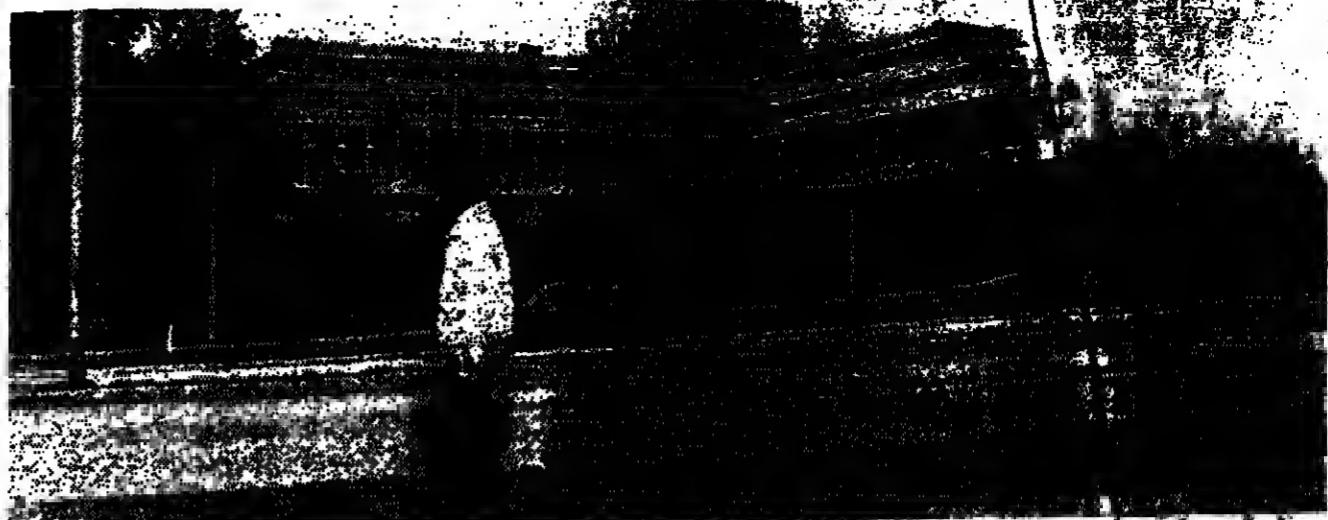
SATELLITE COMMUNICATIONS

Communications have taken great leaps forward with the advent of satellites. One of these, the International Maritime Satellite (INMARSAT) is proving invaluable to shipping companies like NYK. Today, NYK has more than 40 ships in its extensive fleet equipped with INMARSAT receivers/transmitters. Communications, especially in areas where conventional radio signals were ineffective, have increased safety and service efficiency enormously. The INMARSAT communications system is only one example of NYK's continuing efforts to upgrade its transportation services. Others include our intermodal transport service and the diversity of vessels available. They're all part of the friendly, efficient service that NYK users have come to expect over the past 99 years.



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BANKING AND FINANCE IN LUXEMBOURG



The European Investment Bank

European Currency Unit Trade Rises And Its Appeal Is Expected to Grow

ON THE Luxembourg Stock Exchange, traders have been dealing in Eurobonds for a quarter of a century. But the most phenomenal rise in trading volume has been scored by the newest currency in which such paper is denominated, the European Currency Unit.

In the five years since the European Community created this composite currency, its use in private banking and financing operations has grown to new issues totaling more than 1.9 billion ECU in 1983, and this year a new bond is being issued virtually every week.

An ECU, worth about \$1.20, is made up of currencies from the EC member states. In September the number of currencies in the basket will rise to 10 when the Greek drachma is added. The money mixture was invented for official transactions and accounting by the EC, but its most conspicuous success has come in private banking and financial operations.

The first borrower in the currency was an Italian company, and some of the ECU's appeal to borrowers from other "weak-currency" countries such as France and Luxembourg is obvious. They can borrow at relatively low interest

rates, while the exchange risk is reduced because their local money makes up part of the package.

EC institutions have been big borrowers, too, partly in the name of bank spirit. Other borrowers have been seeking to diversify their currency risk, particularly to get out of the dollar. That would explain the ECU issues by such institutions and governments as the World Bank, Boston International Finance, Citicorp Overseas Finance, the Bank of Tokyo, Nippon Credit Bank, Quebec province, Austria and South Africa.

The lender of this mixed currency, as with other euro-currencies, is rather more conventional: the proverbial Belgian dentist. One-half to three-quarters of ECU issues find their way into Belgian portfolios. A further 10 to 15 percent wind up in Luxembourg. Belgian banks, as a result of their placing power, have managed to maintain a queue for new issues, to keep issuers from crowding each other out — a system that Luxembourg banks and other foreign banks often envy. Jumping the queue, as some French rebels discovered, can result in an issue's being discounted rapidly, something banks dislike.

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BANKING AND FINANCE IN LUXEMBOURG



The European Statistics Center.


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Duchy Expands Role as World Center For Insurance Through New Legislation

EARLIER THIS year Luxembourg took a giant step forward in its efforts to diversify its financial market and become a center for international insurance companies as well as banks.

The parliament passed a bill Feb. 7 creating conditions to attract certain sectors of the insurance business that the government seeks to promote, especially general reinsurance and captive insurance and reinsurance.

Provisions in the bill permit insurance companies during the initial years after settling in Luxembourg to make generous untaxed

technical provisions. Moreover, the profession of insurance broker — hitherto prohibited under Luxembourg law — was legalized for those in the international insurance business.

But the bill also tightened regulations in some areas. "A reinsurance company must have at its disposal a minimum capital requirement of 50 million Luxembourg francs, though for a pure captive insurance firm the requirement is less," said Ernest Muhlen, treasury minister-delegate and orchestrator of the draft bill.

Mr. Muhlen, who also heads the

government's insurance study group, said he felt the bill would go a long way toward drawing new insurance business to Luxembourg. Not that the Grand Duchy is without insurance companies. But the 43 firms registered in Luxembourg, most of which have their headquarters abroad, tended to confine their business to the domestic scene, which has rapidly become saturated.

Aware of this, the government wished to promote international insurance and reinsurance business to increase employment and bolster tax revenue.

One of the first international insurance companies to operate in Luxembourg is Unilife Assurance Group, which specializes in international life insurance and reinsurance. Two British mutual insurance groups, the West of England Shipowners Mutual Protection and the Indemnity Association, focus on marine, aviation and transport risk.

"It is curious to note that the giant damages resulting in the environment from the catastrophes of the Torrey Canyon and Amoco Cadiz [oil tanker accidents] were covered and settled in Luxembourg," Mr. Muhlen said.

He said the two mutual insurance groups paid a total in premiums of 10 billion francs a year, more than double the premium income generated from domestic insurance activities.

According to figures compiled by the Luxembourg insurance supervisory authorities, premium income derived from domestic business reached 4.4 billion francs last year, a 10-percent increase from 1982.

The insurance companies dispose of reserves of about 10 billion francs, which, in a country of 360,000 inhabitants where business was almost entirely confined to the domestic scene, is not to be underrated, Mr. Muhlen said.

The insurance sector in Luxembourg employs 763 persons, or about 0.5 percent of the working population. Added to this figure are about 5,300 part-time agents who, Mr. Muhlen said, fulfill a useful service in attracting new clients.

But Luxembourg's insurance supervisor, Victor Rod, said the country was not interested in drawing just anybody into its fledgling international insurance sector. "We want to maintain the good name of the Grand Duchy; we care about the solidity and solvency of

(Continued on Next Page)



Construction under way in the city of Luxembourg.

European Currency Unit Trade Rises

(Continued From Previous Page) most enthusiastic boosters of the new money — although French purchases of ECU-denominated stocks or bonds have to buy the currency at a premium price because of foreign exchange controls. Italian ECU investors in issues by Italian state companies are allowed to make their purchase without having to pay the foreign currency premium. Dominique Rambure, a Crédit Lyonnais official who is one of the bank's negotiators with the BIS and active in the informal clearing group, said he was actively lobbying the French Treasury to have exchange control restrictions eased for ECU dealing, or to allow an issue in ECUs on the French domestic market for French residents.

As a first step, earlier this month

the French government gave permission for ECUs to be bought and sold, like foreign currency, on the Bourse. This is something people or banks can already do on other stock markets, including Luxembourg's, where a market-determined value of the ECU is fixed daily.

There is one market where the ECU is not welcomed. It is West Germany — the home of a hard currency and a land where exchange controls are not normally tolerated. The situation is so unusual that one Luxembourg banker could only explain it by noting jokingly that the ECU is not spelled (as is certain German beer) "Eku." The Bundesbank has outlawed ECU-denominated dealings between West Germans, citing regulations against currency-index-

ation clauses. The key reason for the central bank's opposition is felt to be its long-standing fear of losing control over the money supply if the Deutsche mark becomes a Eurocurrency. Already 13 percent of the world's debt is denominated in marks, and nonresident mark holdings are constantly rising. The ECU — 37 percent of which is marks — is a back-door method of creating Euro-Deutsche-marks, the West German authorities believe.

There are hints, however, that the official West German attitude is changing. Earlier this year, via its offshore subsidiary, the state-controlled Westdeutsche Landesbank issued a seven-year, 50-million-ECU bond.

Although some market-watchers such as Mr. Rambure, believe the Bundesbank may be changing

its anti-ECU interpretation of West German banking laws, others are less certain. One of these is the senior international officer at Deutsche Bank Compagnie Financière Luxembourg, Eckhard Storck. "The Bundesbank does not like ECUs," he said. "Within the EEC there is some pressure favoring change, but there are no indications that the conflict with German banking law is being resolved."

But even without the approval of Frankfurt, the ECU's role is increasing. The composite money is the third most important Eurocurrency in the world, after the dollar and the mark, in the financial and bond markets. In the course of 1984, a Japanese or U.S. company will probably issue the first ECU-denominated convertible bond.

— VIVIAN LEWIS

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FINANCIAL HIGHLIGHTS 1983

Our activities include

- short and medium term euro-currency loans
- forfeiting and guarantees
- money and foreign exchange trading
- securities and precious metals trading
- acting as trustee
- accepting of deposits
- portfolio management

The complete balance sheet as well as the profit and loss account will be published in the *MEMORIAL*, official gazette of the Grand-Duchy of Luxembourg, edition C.

	1982	1983
2,059 MIL. US \$	Balance sheet total	2,109 MIL. US \$
957 MIL. US \$	Volume of credits	1,117 MIL. US \$
1,021 MIL. US \$	Due from banks	920 MIL. US \$
16 MIL. US \$	Securities	24 MIL. US \$
1,905 MIL. US \$	Deposits	1,954 MIL. US \$
66 MIL. US \$	Capital funds	93 MIL. US \$
(US \$/Flux-Kurs 48,10)		(US \$/Flux-Kurs 56,48)

NORD/LB
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Chairman of the Board of Directors and the Executive Committee: Jean de Roquefeuil

Members of the Executive Committee: Paul J. Monnery, Alain Field, Aymar Durand de Saint-André

Statement of Condition as of December 31, 1983 (expressed in US Dollars for operations started May 3, 1983)

Assets	Liabilities
Current Assets	
Cash and postal cheques	6,669
Due from banks - demand	193,319,656
Due from banks - time	67,778,698
Loans and advances	93,469,613
Other current assets	9,694,306
Furniture and equipment, net	988,968,949
Total Assets	292,481,031
Contingent Accounts	
Undrawn commitments	196,534,339
Guarantees on behalf of third parties	13,695,917
	986,679,018
Borrowed Capital	20,000,000
Subordinated loan	40,000,000
Shareholders' equity	1,809,013
Provision for contingencies	
Total liabilities	298,481,031

A copy of the full report is available upon request.

**INTERNATIONAL
BANKERS
INCORPORATED S.A.**

WestLB
International S.A.

Condensed
Balance Sheet
as per
December 31,
1983

WestLB International S.A.
32-34, boulevard
Grande-Duchesse Charlotte
P.O. Box 420
L-2014 Luxembourg
Telephone: 44 7411

Subsidiary of
Westdeutsche Landesbank
Girozentrale,
Düsseldorf/Münster

ASSETS	In millions of DM	previous year
Amounts due from banks	3,581.5	3,728.5
Loans and advances to customers	6,611.1	6,122.6
Securities	391.7	384.8
Other assets	337.9	313.8
	10,922.2	10,549.7
LIABILITIES	In millions of DM	previous year
Amounts due to banks	9,436.1	9,430.9
Current deposits and other accounts	563.6	346.3
Other liabilities	275.6	237.4
Share capital	125.5	125.4
Reserves	199.0	186.9
Provisions	309.7	210.4
Profit	12.7	12.4
	10,922.2	10,549.7

The unabridged annual statement as well as the profit and loss accounts will be published in the "MEMORIAL Amtsblatt des Großherzogtums Luxemburg, Ausgabe C" (Official Gazette of the Grand Duchy of Luxembourg, edition C).

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In 1983 DnC Luxembourg had total assets of LUF 50.6 billion (US \$ 895 million), capital and reserves LUF 1.6 billion (US \$ 30 million) plus subordinated loan LUF 1.1 billion (US \$ 20 million), and profit before taxes and provisions of LUF 558 million (US \$ 10 million).

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BANKING AND FINANCE IN LUXEMBOURG

Eurobond Business Recovers Ground

(Continued From Page 7)
ly made much of, but their bread and butter will remain the Eurobond. Breaking down the overall Eurobond market into its constituent Eurocurrency issues reveals Luxembourg as the major Deutsche-mark bond issuer though nowadays it is something of a minor player in the hugely predominant Eurodollar bond league.

Because of its core of 30 extremely active West German banks, Luxembourg has more than 37 percent of the Euro-DM bonds that were launched in 1983 at a worth of about \$4 billion. But its portion of the Eurodollar bond business — which traditionally accounts for three-quarters to four-fifths of all Eurobonds — is considerably less. Last year it improved to reach 16.2

percent from 12.7 percent it had sunk to the year before. But it is still some way from the 20 percent or so it appears to have attained at the end of the 1970s.

Luxembourg's bond experts have of late begun to congratulate themselves on the general health and strength of the Euromarket. As Philippe Marchat, financial manager of the European Investment Bank, said last year to representatives of the 90 banks from 16 different countries who make up the shareholders of the Luxembourg-based CEDEL Eurobond clearing house: "The international bond market is functioning more efficiently than it has done for years."

Mr. Marchat was able to point out that the size of the Eurobond market — \$20 billion, against a mere \$30 million in 1963 — is now such that there is a substantial "reflux" of funds for new investment from interest payments and capital redemptions of existing securities.

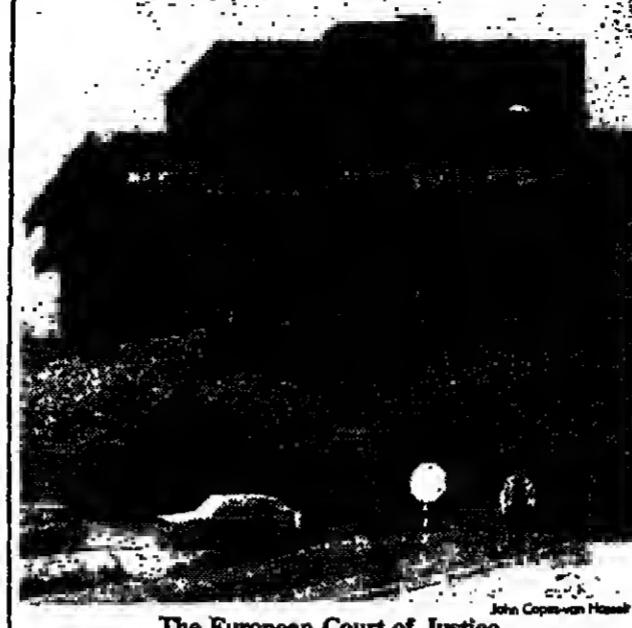
He cited a recent estimate by the Ordre Royal Bank that by 1987 the return flow of interest payments and capital reimbursements should reach more than \$33 billion. And to that there should be added any fresh inflows of capital that might be attracted by the Eurobond market.

This was hardly the sort of analysis the financial institutions that jointly own CEDEL would want to hear. Euromarket growth would not only boost their own activity but it would swell the volume of CEDEL's business, for the clearing house that is the principal rival of the Brussels-based Euroclear now claims to handle about 38 to 40 percent of all Eurobond clearances.

Yet the outlook for the Eurobond sector and Luxembourg's future are less clear than those forecasts might suggest. Since the dizzying expansion in 1982 of the Eurobond market in general and of Eurodollar bonds in particular, the Euromarket has slackened and consolidated itself. Following the great expansion of 1982, when new issues went up \$43.6 billion from \$24.3 billion the year before, the market has settled

Some of the pressure for growth was taken out of the Euromarket by the U.S. banks' successful campaign two years ago to conduct a degree of offshore operations but (Continued on Next Page)

(Continued on Page 16)



The European Court of Justice. John Coppen-Hausen

Gold Maintains a Key Market Despite the Decline in Prices

THE ADAGE that all that glitters is not gold appears to have taken on new significance in the development of Luxembourg's fledgling bullion market.

Investors, ranging from large financial institutions to small private clients, have shared the common attraction to the rewards of a strong dollar bolstered by high interest rates. Tempted by higher yields from Eurodollar deposit bonds and securities, investors on the whole have tended to neglect precious metals. As a result, prices for gold, silver and platinum have been depressed for several months.

"In periods of recession, people become a bit more conscious about having a more stable and regular flow of income and therefore... in periods where interest rates are high, they are more motivated by that," said Jean Krier, general manager at Banque Internationale à Luxembourg.

But though gold has stayed very much in the wings as an investment vehicle recently, it has nevertheless become an integral part of Luxembourg's financial and banking landscape.

Gold trading has found a natural niche in Luxembourg, especially since the country's banking sector has diversified and expanded its

potential as a center for private banking, senior bankers said.

Gold trading in the Grand Duchy was spurred by two factors: the abolition of value-added tax on gold purchases in Luxembourg in January 1982, and the introduction of official quotation of gold, or gold fixing, on March 17, 1981.

The VAT-free status of gold in a country in the center of Europe — elsewhere on the Continent taxes on gold range from 30 percent in Spain to 1 percent in Belgium — has opened new vistas for profit to most investors and the 114 banks represented in Luxembourg.

The West German banks in particular have found VAT-free gold appealing and profitable.

"It has enabled us to sell to our private customers in West Germany, at the correct price, with the single condition that the gold be physically delivered in Luxembourg," said Ernst Krause, deputy manager at Dresden Bank International, the Luxembourg subsidiary of West Germany's second-largest bank, Dresden Bank AG.

The West German authorities levy a 14-percent VAT on all gold physically imported into the country, while the Swiss, perhaps surprisingly, charge 6.2 percent. Metal detectors at the West German border

authorities are wary of captives taking on risks outside the confines of the parent company.

Such a captive enables the parent at home to insure its own risks and to deduct from taxes the premium reserves. This instrument has obvious advantages in a highly taxed country such as Sweden, insurance analysts say. The captive also enables large multinational companies such as Electrolux to win access to the wholesale market in insurance, if it does not wish to cover all its risks.

However, as Mr. Rod pointed out, the Luxembourg supervisory

authorities are wary of captives taking on risks outside the confines of the parent company.

The campaign to attract the insurance business has already resulted in one major success for the Luxembourg authorities. Coriolis, a subsidiary of the French reinsurance giant La Licorne, with participation from Luxembourg's steel enterprise ARBED, has become the first reinsurance company to set up shop in the Grand Duchy. Mr. Mühle said.

But there are obstacles facing the Luxembourg authorities in their desire to attract general reinsurance and captive insurance and reinsurance linked to the insurance sector.

MICHAEL METCALFE

World Insurance Business Is Growing

(Continued From Previous Page)
those companies interested in setting up business here," he said.

Those interested included newcomer Takafni, a Saudi-backed insurance company, with an investment policy attuned to the principles of the Koran. This was a clear case of the Luxembourg authorities responding to the call for diversification into areas other than the banking sector.

But it is the captives that have made the most inroads into the new sector so far. Now numbering six and including the insurance arms of the Swedish companies Electrolux, ASEA and Aljas Copco, these

companies insure the risks of the parent company with headquarters as far afield as, in this instance, Stockholm.

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MICHAEL METCALFE



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BANKING AND FINANCE IN LUXEMBOURG



Inside the dining area of the new Le Royal hotel.

JPL, 18/6/84

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A Newcomer on the Boulevard Royal Is Expected to Change the Hotel Scene

LUXEMBOURG's banking center, the Boulevard Royal, is about to be graced with an institution missing from larger financial markets. You can search all over Wall Street or London's Threadneedle Street and not find one of these. If all goes according to plan, however, by the end of the month Luxembourg will have a five-star luxury hotel in the middle of bankers' row.

Le Royal hotel is being built by Swiss Tradition Hotels, owners of the Carlton in St. Moritz, the Montreux Palace and the Lausanne Palace—where in the high season you can spend up to 2,500 Swiss francs (\$1,100) a night. The money winds up in holding company called Soderal (not to Luxembourg but in Fribourg, Switzerland), the majority of whose shares are owned by Swiss investors represented above all by Paribas-Suisse and Hofstette, Landolt & Cie., a private Swiss bank. Partly because of the Swiss connection, perhaps, building the Royal in the rival banking capital of Luxembourg has been difficult.

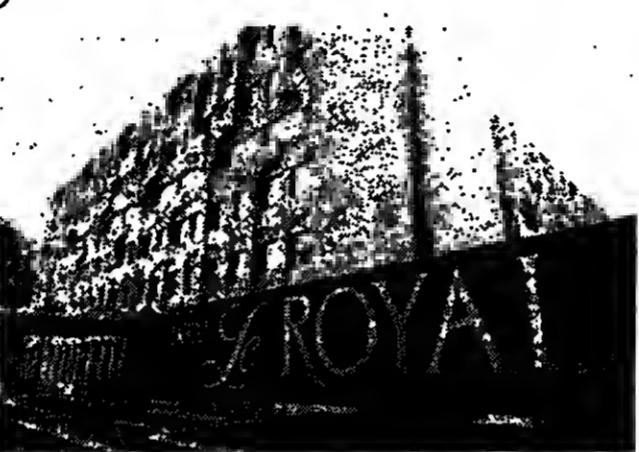
First the Luxembourgeois, eager to protect the skyline of their tiny capital, forced the Swiss group to reduce the size of the proposed building from 240 rooms to 180. Then, between inefficiency and poor weather, the hotel has not met its deadlines and will almost certainly not be opened as advertised during the spring of 1984, before June 21. Only two floors and some public rooms will be ready before the month is over.

Even more troubling to the Swiss

is the prospect of competition thanks to overbuilding. To be sure, theirs will be the only international-class luxury hotel in the city center, barely touched by the less plush, smaller hotels Rix and Cravat, to say nothing of the traveling salesmen's hostels near the railroad station across the ravine. But, in addition to the Sheraton Aerogolf (150 rooms) near the airport and the Holiday Inn (260 rooms) near the European Community offices, Luxembourg expects a spate of new suburban hotel-building, all undertaken since Le Royal broke ground. By February, the 348-room Intercontinental is scheduled to open the Novotel, which opened with 121 rooms and 300 beds, has nearly doubled in size and by the end of the year will have brought to 293 rooms sleeping 750 persons.

Perhaps as a result, prices at the Royal are being pitched at levels well below what Swiss Tradition charges at the Palace in Montreux. When it is completed, the royal suite will cost a mere 12,400 Luxembourg francs a night, including breakfast (children under 6 are free and children ages 7 to 15 half price). If they share the suite with their parents or stay in any other room. A single is 3,100 to 3,900 francs, a double 4,100 to 4,900 and a "petite (commoner's) suite a modest 7,200.

Visitors will have access to state-of-the-art communications (often lacking in Luxembourg hotels), security, parking, a swimming pool and gym, meeting rooms, 24-hour



Outside the new Le Royal.

service, a restaurant serving nouvelle and traditional cuisine, a midnight-blue-with-gilt-trim piano bar and a splendid view amid the greenery of the town park. The decor is soodingly blue or earth-tone in the bedrooms; a bit more imaginatively outdoorsy is Le Jardin, the breakfast room; and an appealing hot orange in some of the below-grade public rooms.

A nice touch is that one room on each floor is fitted for patrons in wheelchairs. But, in general, the hotel is relatively lacking in innovation, merely safely Swiss.

To try to ensure business, having built a businessman's hotel in the center of town, the Royal is hedging its bets by trying to lure excu-

— VIVIAN LEWIS

sion groups on weekends. Bargain rates are offered for upmarket tour groups—linked to the Echternach music festival, for example, or to corporate incentive programs such as one for successful salesmen who get to go on holiday trips with their wives at company expense. These rates will be one-third to one-half the mid-week levels.

With a maximum of 320 guests, the Royal will have a staff of 116, about 60 percent Luxembourgeois. There will be 15 suites, 55 single rooms and 110 doubles with twin beds or queen-sized beds. All rooms have bath or shower and are air-conditioned.

— MICHAEL METCALFE

Gold Maintains Place as Key Market

(Continued From Previous Page)

rand, Canada's Maple Leaf or France's and Switzerland's 20-franc pieces. The minting of gold coins in Mexico was suspended last year for the second straight year, but sales from existing stocks still abound.

The Luxembourg Bourse, in deciding to introduce the official quotation of gold in 1981, did not presume to think that the daily gold fixing would take on the illustrious and influential role of its London and Zurich counterparts. But while not rivaling the British or Swiss fixings, the Luxembourg gold fixing has drawn the attention and secured the confidence of private and corporate investors, usually

those in or near Luxembourg, local bankers said.

Major price shifts in gold do not emerge from the Luxembourg gold fixing, but should a surge in demand suddenly materialize in the Grand Duchy and cause a premium to develop between the local fixing and that in, say, London, gold dealers would be swift to arbitrage it away, the bankers said.

The fixing, which is made for a one-kilogram bar with a fineness of 999.9/1,000 as well as for the standard quantity of 400 troy ounces, takes place at 10:30 A.M. every trading day under the supervision of bourse authorities, stock exchange officials said.

— MICHAEL METCALFE

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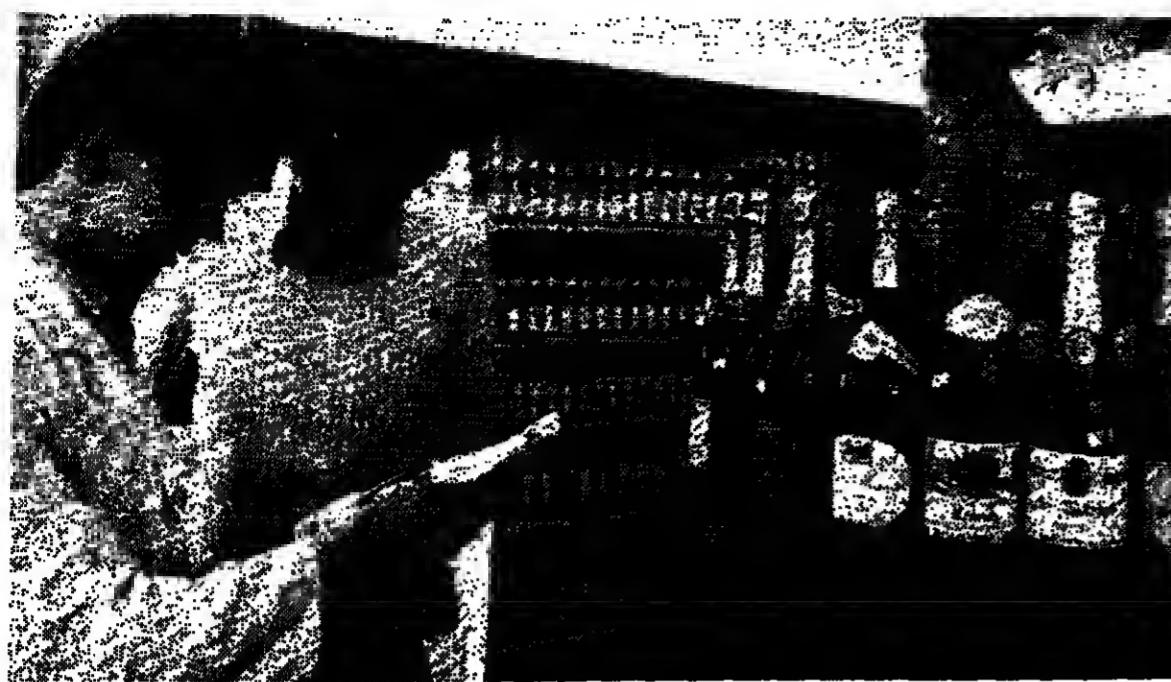
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BANKING AND FINANCE IN LUXEMBOURG



Luxembourg wines on display in a city shop.

John Capper-Hawell

Asset of Another Sort: Wines Produced in the Grand Duchy

THERE IS one kind of liquidity Luxembourgers like to keep to themselves: not the banking sort, but wine.

The art of producing fine, if little known, white wines plays an often underestimated role in the Grand Duchy, sandwiched as it is between the great wine-growing areas of France and West Germany.

Very little of the country's small annual production ever crosses its borders, except possibly to Belgium. It is well-nigh impossible to find a bottle of Luxembourg wine in France. But in the solid, comfortable restaurants of Luxembourg City's medieval quarter, these dry, fruity wines abound.

"We make a point of offering our clientele a wide selection of Luxembourgish wines with our dishes, and they are very rarely disappointed," said the sommelier at La Rotisserie on the narrow, winding Rue de l'Eau.

The Grand Duchy's vintners, who work in some

of the most northerly vineyards in the world, went through hard times recently. In 1978, 1979 and 1980 they had disastrous harvests, with 42 percent, 35 percent and 27 percent, respectively, of an average medium-quality crop harvested. Prime Minister Pierre Werner recalled in a recent speech to the Chamber of Deputies.

The government gave the vintners direct subsidies totaling 158 million francs as well as low-interest loans.

But 1982 was an outstanding year for winemaking in Luxembourg, "a real vintage year for both forms of liquidity, banking and wine," said Jean Krier, general manager at Banque Internationale à Luxembourg.

Last year's output, while below 1982's record levels because of unfavorable weather, still produced a bumper harvest of 175,000 hectoliters (4,62 million gallons) of high-quality wine, above 25,000 hectoliters above the yearly average.

Most of Luxembourg's wine-growing region centers on the western banks of the upper reaches of the Moselle River, as it winds its way down the southern fringes of the Grand Duchy's border with West Germany.

The wines of Grevenmacher, Remich and Metz cannot be compared with their German cousins as the German fermentation process is stopped earlier, resulting in a sweeter wine. The dry Luxembourg white wines are perfect for one of the country's specialties — *truite farcie*.

About half the grapes grown in Luxembourg are Rivaner, a close relative of Sylvaner and Riesling. The wine most popular among Luxembourgers, however, is a dry, light wine called Elbling, which, after Rivaner, accounts for the second-largest output. Small quantities of Traminer, Pinot Blanc and Gris and Riesling are also produced.

— MICHAEL METCALFE

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Eurobonds Recover

(Continued From Page 14)
of New York. Fortunately for Luxembourg, ideas for a similar relaxation of West German restrictions that would have allowed a variation of the new U.S. International Banking Facility to be operated by the Frankfurt and Berlin banks were turned down by the Bundesbank. As it was, 1983 was a year of doldrums for the Eurobond market as a whole, with issues running at just over \$44 billion for the year.

The area of the Eurobond sector that Luxembourg scrutinizes with the closest interest is one that accounts for 4 percent of all bond issues — the tiny but technically interesting ECU-denominated bond business that is the invention of Luxembourg bankers. The first European Currency Unit bond was floated by the Kredietbank Luxembourgeoise in March 1981 on behalf of part of Italy's Stet Electronics. That modest 35-million-ECU initial bond was followed during that year by four bonds denominated in what is in effect a basket of the currencies in the European Monetary System.

"ECU bonds have become very attractive to what we call the 'Belgian dentist,' the Benelux private investor if you like," said Jean Adam, administrative director of the Kredietbank Luxembourgeoise. Together with the two other major Belgian-linked banks in Luxembourg, Banque Générale and Banque Internationale à Luxembourg, Kredietbank has during the last three years largely expanded the number and the size of ECU bonds. In the first few months of this year there were 26 issues totaling 1.4 billion in value and bringing the worth of outstanding ECU bonds to more than 5 billion ECU. Together with other ECU devotees ECU business is now estimated by Mr. Israel at 10 billion ECUs.

The three major banks are now eager to see the ECU bond market "institutionalized" in the sense of the financial institutions starting to hold and trade the new bonds in the same way that private investors do. Although ECU bonds would, if they were not for the European Commission's enthusiasm for them, risk being dismissed by some as curiosities, the Luxembourg banks insist that there is an increasingly active secondary market in them. The ECUs outstanding, they say, now equal as a monetary market the Euroguilder, the primary market

for itself with issues now averaging 50 million to 60 million ECUs, and the secondary market with trades averaging a quarter of a million ECUs is comparable to that of the Euro-DM. The major problems are that the volume of secondary trading is still low, and many dealers still view the ECU as artificial.

— GILES MERRITT

CONTRIBUTORS

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VIVIAN LEWIS and **MICHAEL METCALFE** are Paris-based financial journalists.

GILES MERRITT is a Brussels-based journalist who follows Luxembourg financial affairs, among other things.

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Wines
nd Duchy

MONDAY, JUNE 18, 1984

July 1984

Herald Tribune

BUSINESS/FINANCE

Page 17

EUROBONDS

Signs of Slowdown in U.S. Cause Manic Market Swing

By CARL GEWIRTZ

International Herald Tribune

PARIS — The Eurobond market turned manic last week as the conviction spread that good happenings are in store.

For the bond market, good news means a slowing in the pace of the U.S. business recovery, which would mean less pressure on interest rates.

Slower growth is widely forecast and appeared to be heralded by the midweek report of a scant 0.2-percent rise in May retail sales. Further confirmation came late Friday with news that industrial production last month advanced a very modest 0.4 percent while wholesale prices were unchanged from April.

The good news should culminate this week in the first "flash" report on the estimated growth in the second-quarter gross national product. This is expected to register a 3-to-4-percent rate of annual growth, down from the torrid 8.8-percent annual pace of the first quarter.

That, coupled with the continuing debt-servicing problems of Latin American borrowers, should drive the Federal Reserve to allow interest rates to decline, many market participants believe.

On top of all this, rumors spread Friday that the U.S. Congress was about to abolish the withholding tax on interest payments — opening the U.S. bond market, and particularly Treasury bonds — to foreign investors who did not want to pay that tax.

As a result, dealers reported massive buying, especially from the Far East, of U.S. government paper. As prices of that paper rose, the yields, which move inversely, declined.

With Treasury yields falling, prices on all other debt instruments moved in tandem and by late Friday a full blown rally was under way.

Only two fixed-coupon dollar bonds were offered last week and both were grabbed up. GMAC Overseas offered \$200 million of two-year notes bearing a coupon of 13 percent. These were priced at a premium of 100.325 for a yield of 12.81 percent.

The premium pricing, dealers said, was intended to offset the 1½-percent commissions paid to market the notes. The commissions, deemed large by the borrower, were seen as necessary to assure successful placement and the cost was partially recovered through the pricing.

On Thursday night, when the package was put together, the cost of funds to GMAC was about equal to similarly dated U.S. Treasury paper. But with the early gains that were recorded at Friday's opening, the GMAC paper was yielding 40 basis points over comparable Treasury notes by the time the offering was announced. As a result, the GMAC notes ended the week quoted at a touch under par.

Nippon Credit, the only other new issue, had no problem placing \$100 million of five-year notes bearing a coupon of 13½ percent. These ended the week quoted at 99.

The floating-rate-note market also fared well, with Sweden

(Continued on Page 19, Col. 4)

Eurobond Yields

For Week Ended June 13

U.S. 30 year, int'l. inst.	13.57 %
U.S. 30 long term, Ind.	13.67 %
U.S. 30 medium term, Ind.	13.58 %
U.S. 30 short term, Ind.	13.61 %
French Fr. medium term	13.58 %
Yen 10 years, int'l. inst.	7.88 %
ECU short term	10.23 %
ECU medium term	11.08 %
ECU long term	11.23 %
DM 10 years, int'l. inst.	9.83 %
DM 10 years, int'l. inst.	10.67 %

Calculated by the Luxembourg Stock Exchange

Market Turnover

For Week Ended June 15

(Billions of U.S. Dollars)

Total Dealer Eurobonds

Globe Eurobonds

12,107.9 6,784.6 1,301.5

19,451.6 18,362 1,269.6

Calculated by the Luxembourg Stock Exchange

Source: International Bond Survey

U.K. Strike Worries Financial Markets

By Bob Hagerty

International Herald Tribune

LONDON — As Britain's coal strike enters its 15th week, the financial community is edgy but not yet alarmed about the economic consequences.

The strike, which has closed about three-quarters of the country's 180 mines, already is the longest since 1926. After last week's breakdown of negotiations, no solution appears imminent.

The trigger for the strike was the National Coal Board's announcement in early March that it intended to close 20 mines, or about 4 percent of production capacity, at a cost of 20,000 jobs. But the immediate issues have become submerged in the personal struggle between two men of notorious strong will: Arthur Scargill, president of the National Union of Mineworkers, and Ian MacGregor, chairman of the coal board.

Mr. MacGregor told reporters last week that Mr. Scargill was "making statements that have little or no connection with the truth." In a newspaper interview, Mr. Scargill had a different explanation. "MacGregor has got this unusual persona: He either deliberately or innocently forgets what he said a week ago," he said.

The bickering has not soothed the financial markets. During the past three months, the pound has slipped 2 percent against a trade-weighted index of other major currencies, while the Financial Times industrial share index has dropped 6 percent.

Many investment analysts figure that rising U.S. interest rates and related fears of a banking crisis have been the main factors undermining confidence but that the coal strike has also played a major role.

Given the level of uncertainty about both rates and coal, says Gavyn Davies, economist at Simon & Coates, "we're not advising people to hold sterling at the moment."

For now, most analysts judge that the government is in a stronger bargaining position than the miners. Even so, the market remembers that the 1974 coal strike helped bring down the Conservative government of Edward Heath.

The current Conservative government seems determined to defeat Mr. Scargill soundly. Last week, Prime Minister Margaret Thatcher dismissed the option that she would sue for peace over "beer and sandwiches at No. 10." But some analysts fear that Mrs. Thatcher eventually will be forced to "climb down" and offer major concessions.

"That would be an enormous negative" for the government bond markets, says Richard Jeffrey, an economist at Hoare Govett Ltd. Investors would fear that victory for Mr. Scargill would embolden other unions, push up pay demands and send inflation sharply above its current level of 5 percent a year.

Coal accounts for about a third of all energy use in Britain, and the strike is inflicting at least temporary damage on the economy. Steel output in May was 14 percent below the year-earlier level, mainly because coal supplies are being disrupted at some plants.

Reflecting the drop of coal and steel output, overall industrial



Ian MacGregor



Arthur Scargill

production has fallen 1.5 percent in the past three months from the level of the prior three. At the beginning of the year, most economists were looking for economic growth of 3 to 3.5 percent, but some already have shaved as much as a percentage point from their forecasts. The difficult question is how much of the lost output will quickly be made up after the strike ends.

The state-owned coal industry normally sucks up about £25 million (\$34.5 million) a week in loans and subsidies. Simon & Coates estimates that the strike is adding £34 million a week of losses.

The strike also hurts the trade accounts, as evinced by April's record deficit. Additional use of oil and imported coal is causing a deterioration of £150 million to £200 million a month in the trade account, according to Phillips & Drew.

Official estimates of coal inventories, disputed by the miners, suggest that the government could refrain from ordering cuts in power consumption for at least several more months. The miners would have to hold out until November or December "before the strike really ends," says Keith Stoeck, an economist at James Capel & Co.

Many stockbrokers expect the miners to cave in before summer is out. "The financial squeeze is getting pretty acute at the moment," Mr. Stoeck says.

At Simon & Coates, though, Mr. Davies warns that if the miners hold out through August they will take heat from the approach of winter and heavier coal use. "It does not appear to me obvious that they will be starved back to work in the next few weeks," he says.

Conrail Notes It Can Reject All Current Offers

By Agis Salpukas

New York Times Service

NEW YORK — The directors of Conrail have told Elizabeth H. Dole, the secretary of transportation, that they would reserve the right to make or support other offers for the railroad if they felt that none of those submitted by Monday were to the best interests of the corporation.

If the board opposes Mrs. Dole's choice, it could have an effect on Congress, which must pass en-

abling legislation for Conrail to be

sold.

It is unclear what effect the resolution of the board will have. The Northeast Rail Service Act of 1981 does not require that the Conrail board approve of any sale. The act provides only some guidelines for disposing of the railroad.

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abling legislation for Conrail to be

sold.

When asked what the board might do if Mrs. Dole ignores its wishes, Saul Resnick, the director of media communications for Conrail, said, "The letter speaks for itself." He added that the board "had the duty in act to assure the long-term viability of the company."

The Department of Transportation has two bids so far. The employees through the Railway Labor

(Continued on Page 21, Col. 5)

U.S. Conference Set Floor for Foundation Payouts

By Jonathan Fuerbringer

New York Times Service

WASHINGTON — Conference from the U.S. Senate and House of Representatives have approved a requirement that private tax-exempt foundations pay out a minimum of 4.35 percent of the value of their investment assets each year as charitable contributions.

The action Friday marked the first time that Congress has imposed a minimum contribution requirement on foundations. Present law requires a 5-percent payout, but any or all of that can be for operating expenses.

"Some of us here have felt that if you're in the charity business, you have to give to charity," said Senator Russell B. Long of Louisiana, ranking Democrat on the Senate Finance Committee. He was referring to the fact that foundations are exempt from income tax because they set themselves up as not-for-profit organizations whose purpose is to give away money for public purposes.

The action Friday followed a

Some foundations make no significant contributions, he said.

The conference also approved a "golden-parachute" provision that would tax some settlements granted to executives who leave their jobs after a takeover or merger.

Additionally, a small tax cut was approved for the coal industry for mine reclamation. The projected revenue loss is about \$130 million through 1987.

Representative Dan Rostenkowski, Democrat of Illinois and chairman of the House Ways and Means Committee, and Senator Robert J. Dole, Republican of Kansas, chairman of the Senate Finance Committee, said they wanted to finish shaping the tax bill by Tuesday night.

As of Friday night, the conferees had raised about \$44 billion in prospective revenues through 1987, according to a staff estimate. Friday's changes had no major impact on the total.

The goal is a tax bill in the \$50-billion range, which would be part of an overall deficit-reduction package. Because the final bill is expected to include some major tax cuts, more than \$50 billion in new revenue will have to be raised to meet this goal.

Mr. Dole, in an interview, said that cuts in health-care programs being considered by the conferees would be dealt with after the tax provisions. This whole package "would be the first half of the 'downpayment' on deficit reduction that Congress is working on, said.

Mr. Dole said this half of the package could get to the President

Washington — Conferees following a deal to end the dispute over the proposed \$1.5-billion cut in the foundation tax. The conferees also agreed to a "golden-parachute" provision that would tax some settlements granted to executives who leave their jobs after a takeover or merger.

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NEW EUROBOND ISSUES

Issuer	Amount (millions)	Mat.	Coup. %	Yield at offer	Price and week	Terms
FLOATING RATE NOTES						
National Bank of Canada	\$ 50	1991	1/4	100	—	Over 6-month Libor. Minimum coupon 5½%. Commissions 1½%.
Skopbank	\$ 75	1994	1/4	100	—	99.00 Over 6-month Libor. Minimum coupon 5½%. Redesable of par in 1991, and callable at par in 1997. Commissions 2.25%.
Sweden	\$750	perpet	1/4	100	—	99.92 Over 6-month Libor. Minimum coupon 5½%. First callable of par in 1986. Subscribable at par every year in July starting next year into a 4-year note paying interest at the mean of the bid and offered rates for 6-month Eurobonds; itself switchable at par into the perpetual note in July 1986, 1987 and 1988. Commissions 0.35%, increased from \$50 million.
FIXED-COUPON						
GMAC Overseas Finance	\$200	1986	13	100.33	12.81	99.95 Noncallable.
Nippon Credit	\$100	1989	13%	100	—	99.00 Noncallable.
Industrial Development Corp.	DM 50	1991	8%	99%	8.47	98.25 Noncallable private placement.
World Bank	DM 300	1992	8%	100	—	98.88
European Investment Bank	ECU 75	1992	11½	100.04	11.08	98.75 First callable at 100% in 1990. Purchase fund operating in first 3 years will produce a 7.17% average life, increased from 60 million acts.
Svenska Exportkredit	ECU 5.75	1989	11	100.04	10.93	99.13 Noncallable.
Royal Trust	£ 30	1989	12½	100	12½	99.13 Noncallable.
Hudson's Bay	CS 50	1989	14%	100	—	98.00 Noncallable.
Coles (G.J.)	Aus 25	1989	13½	100	13½	98.00 Noncallable.
EQUITY-LINKED						
Elders	\$160	1994	open	93½	—	94.13 Coupon indicated at 11½% for a yield of 12.67%. Redemable of par in 1982, 1988 and 1989. Convertible at an anticipated 20-22% premium. Increased from \$130 million. Terms to be set June 19.
Marui	\$100	1999	open	100	—	Coupon indicated at 35%. Convertible on an anticipated 5% premium. Terms to be set June 21.
Murata Manufacturing	\$100	2000	3½	100	3½	— Callable of 104 in 1997. Convertible of 2.39% per year, a 5% premium. Exchange rate set at 223.45 yen per dollar.
Nikko Securities	\$ 30	1994	3½	100	3½	98.00 Callable of 103 in 1989. Convertible of 49% per year, a 3.5% premium. Exchange rate set at 222.10 yen per dollar.
Nikko Securities	\$ 30	1999	3½	100	3½	98.00 Callable of 103 in 1989. Convertible of 49% per year, a 3.5% premium. Exchange rate set at 222.10 yen per dollar.

News Causes Eurobond Market to Turn Manic

(Continued From Page 17)
offering \$750 million (increased from an initial \$500 million) of perpetual notes carrying a coupon of ½ point over the London interbank offered rate.

This was the first perpetual ever issued by a sovereign borrower, but what the market most appreciated was the novel formula permitting holders to request redemption. At any July anniversary date, holders can switch the perpetual notes into four-year FRNs. Doing so means a loss of interest because the coupon on the four-year notes is set at no margin over the mean of the bid-offered rate, which is equal to 1/16 point below Libor.

With many participants now convinced that interest rates have at least for now, peaked, there is a rush to get into FRNs with high coupons. As a result, National Bank of Canada late Friday announced plans to offer \$50 million

of seven-year notes, priced at 1/4 point over Libor. Earlier, Finland's Skopbank offered \$75 million of 10-year notes bearing interest at ¼ point over Libor. These can be redeemed at par after seven years, at the option of bondholders.

Bankers expect new-issue volume this week to explode if the late Friday improvement carries through to this week.

The only part of the dollar market not faring well was the convertible sector. The terms on the Japanese convertibles are considered skimpy and, more important, the outlook for further big gains in Tokyo stock prices is considered uncertain, if not bleak. The Murata convertible was especially hard hit after the stock plunged in Tokyo.

In stark contrast was the \$160-million convertible for Elders, an Australian brewing and finance company, which was increased \$30 million from the initial indication.

The 10-year bonds are expected to bear a coupon of 11¾ percent and to be priced at a discount of 93½ to yield 12.6 percent.

In addition, bondholders are given some protection against a poor performance of the company's shares through options to request redemption after three, four or five years at par. A holder exercising this option in 1987 would have earned 14.3 percent. The bonds, meanwhile, are convertible into shares at a price expected to be 20 to 22 percent over the prevailing quotation when final terms are set June 19.

The conversion premium is steep for this market, which is accustomed to a maximum 10 to 15 percent. But the coupon and the put options offered consolation and the bonds traded on a wider-issued basis at a premium over the indicated issue price.

The Deutsche mark sector remained depressed, weighed by a

weakening exchange rate against the dollar and continued worries about the labor situation. As a result, the 300-million-DM, eight-year issue for the World Bank, priced at par bearing a coupon of 8¾ percent, languished at a discount of 1½ points while the 50-million-DM private placement for South Africa's Industrial Development Corp. declined 1½ points. These seven-year, 8¾-percent notes were priced at 99½ to yield 8.47 percent.

Last year, for example, French Eurocurrency bank credits totaled only \$1.7 billion, down from \$5.7 billion in 1982. And so far this year, according to data published by Morgan Guaranty, the volume of French borrowing is only a quarter of last year's reduced pace.

Swedish Export Credit's swap issue of 57½ million ECU's was also priced at a premium of 100%, reducing the yield on the 11-percent, five-year notes to 10.93 percent.

Managers believe that despite the tight terms, syndication of the credit should be quite successful because there have been very few public syndications of French loans recently.

Last year, for example, French Eurocurrency bank credits totaled only \$1.7 billion, down from \$5.7 billion in 1982. And so far this year, according to data published by Morgan Guaranty, the volume of French borrowing is only a quarter of last year's reduced pace.

Others argue that the fact that

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Competition for Good Clients Continues to Reduce Charges

By Carl Gewirtz
International Herald Tribune

PARIS — International banks remain awash with more cash than good customers to lend to and the competition to win new business is continuing to push down the charges on new loans.

Electricité de France, for instance, was assured of a low-cost loan — in many respects the lowest cost ever for a French borrower — last week, when four lead managers agreed to underwrite a \$400-million transaction.

Within 24 hours, the amount was increased to \$500 million. Insiders say that EDF is prepared to take up to \$600 million if that much is made available.

In the Far East, meanwhile, the Electricity Generating Authority of Thailand accepted a fully underwritten \$200-million loan from a syndicate headed by Mitsui Bank, bearing terms that many bankers argue are unjustifiably generous to the borrower.

And, of course, there was the much discussed \$1-billion standby credit for Denmark, which had once been rumored to be impossible.

Unquestionably, it was difficult. But last week, two weeks later than had been expected, underwriting commitments for the full amount were completed, and this week the transaction will go into general syndication.

Most noteworthy about the transactions is that they are all largely being used to reduce the cost of outstanding debt rather than as an exercise to raise new money.

Denmark, for example, is canceling \$1.6 billion of outstanding and more expensive standby lines, reducing the amount and replacing them with a much cheaper credit.

The cost of the new line is a record low 0.005 percent.

EDF is committed to drawing

only 16 percent, or \$80 million at the current size of the transaction. The rest will be used to replace most costly back-up lines for existing credit operations.

The Thai utility will use its funds to pay more expensive outstanding loans. Interest on the new 10-year loan will be set at ¾ point over Libor, sweetened by front-end fees that sources close to the agreement say total 45 basis points.

The best terms the Thai government itself has ever won was ½ point over Libor for eight years, on a transaction that served as a

SYNDICATED LOANS

standby credit that is not expected to be drawn.

Thus, the utility's terms represent a new low. By contrast, the state agency as recently as three years ago was paying a split margin of ½ point to ¾ point over Libor for five-year money.

As a standby credit, the EDF operation will be the cheapest ever for France, with a commitment fee of 10 basis points. Interest on the part of the loan used will be scaled to how much is actually drawn rather than to maturity, the normal market practice.

If no more than 33 percent of the loan is drawn, interest will be set at a thin 15 basis points over Libor — a record low for a publicly syndicated French credit.

The charge rises to 20 basis points if up to half the amount is drawn, 27½ basis points if three-quarters of the total is drawn and 35 basis points if it is all used. The commitment fee of 10 basis points is to be paid whether the loan is drawn or not, so that the cost to use the entire amount totals 45 basis points.

The size of the loan was increased \$100 million when Morgan Guaranty and Deutsche Bank joined in late. Each is underwriting \$50 million. Their presence as special bracket managers is seen as adding prestige to the operation and is expected to help attract smaller banks.

Deutsche Bank is very rarely seen in Eurodollar syndications these days and Morgan, normally a major player, has been conspicuously absent as borrowing margins have been driven to razor-thin levels.

Managers believe that despite the tight terms, syndication of the credit should be quite successful because there have been very few public syndications of French loans recently.

Last year, for example, French Eurocurrency bank credits totaled only \$1.7 billion, down from \$5.7 billion in 1982. And so far this year, according to data published by Morgan Guaranty, the volume of French borrowing is only a quarter of last year's reduced pace.

Others argue that the fact that

the original \$400 million was fully

underwritten by four banks — Banque Nationale de Paris, Citibank, Industrial Bank of Japan and Lloyds Bank — should make syndication difficult.

The critics maintain that the original underwriters who put their money on the table score all the points with the borrower.

With EDF thus assured of the transaction, banks which subsequently join the deal do nothing to private clients will want paper to sell to their clients.

A Merrill spokesman said the formula used for the Spanish trans-

action did not mean that all future note facilities it organizes would have a similar structure. "That will be decided on a case-by-case basis," he said.

A classic syndicated loan of \$30 million is currently underway for the Solomon Islands. It is offering to pay ¾ point over Libor for the first two years and ½ point over Libor for the final six years as well as a commitment fee of ¾ percent.

Mauritius is expected to market for \$40 million, paying ½ points over Libor for eight years.

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MINISTERIUM FÜR VOLKSWIRTSCHAFT

PHOSPHATGESELLSCHAFT GAFSA

INTERNATIONALE SUBMISSIONSAUSSCHREIBUNG N.P. 3574

Die Compagnie des Phosphates de Gafsa schreibt auf dem Submissionsschein für Lieferungen nachstehender Bergbaugruben aus, die zum Einsatz unter Tage in den Phosphatbergwerken im Gafsa-Becken bestimmt sind:

— 10 Lademaschinen mit Lufthebezeugung, 1 "CUY"

— 2 Lademaschinen mit Lufthebezeugung, 2 "CUY"

— 1 Lademaschine mit Lufthebezeugung, Gabelwippe

Unternehmen, die an dieser Ausschreibung interessiert sind, können die Submissionssunterlagen gegen Zahlung von 100 Dinar (fünfhundert Dirham) von unserer Hauptgeschäftsstelle, 9 rue du Royaume de l'Arabie Saoudite, 1033 Tunis R.P., Republik Tunisiens, anfordern.

Die Angebote sind in sechsfacher Ausführung in französischer Sprache einzurichten und müssen Monsieur le Directeur des Achats der Compagnie des Phosphates de Gafsa 2130, Mellouli (Tunisien) am 4. Juli 1984 um 9.00 Uhr morgens vorliegen. Der kürzeste Einschlag ist wie folgt zu beschriften:

Appel d'offres N.P. 3574
Engins n° 1 à 6

Ne pas ouvrir avant le 4 juillet 1984

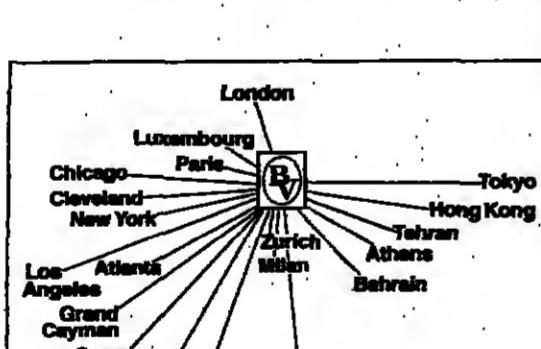
(Submissionssanschreibung N.P. 3574

Bergbaumaschinen

Nicht vor dem 4. Juli 1984 zu öffnen)

Die Submissionssangebote werden auf einer öffentlichen Versammlung in der Direction des Achats (Abt. Einkauf), in Mellouli am 4. Juli um 9.00 Uhr Morgens geöffnet.

Fernschriftliche oder nach diesem Datum eingereichte Angebote können nicht berücksichtigt werden.

Bayerische Vereinsbank:
'83 assets and profits up,
another successful year.

NEW YORK (APB) May 1. Over-the-Counter stocks giving the right, low and last bid or best for the week with the net change from the previous week. Sales at discount. All quotations supplied by the National Association of Securities Dealers, Inc., are not actual transactions but are representative Interdealer Quotes of which these regular bids could have been sold. Prices do not include retail markdown or commission.
•Sales supplied by NASD

	110	37	37	374		
Bielwei	53	32%	31%	31%	—	14
AmnOCl	824	74%	67%	74%	+	12

Over-the-Counter

Sales in 100s High Low Last Chge										Sales in 100s High Low Last Chge										Sales in 100s High Low Last Chge										Sales in 100s High Low Last Chge									
Over-the-Counter																																							
Benham										Compan										Hibber										Indust									
Berkley										Cimarron										Highvld										Indust									
BertKos										ComCali										Hines										Indust									
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(Continued on Page 21)

NASDAQ National Market

SPORTS

Hearns Knocks Out Duran in 2 Rounds

By Joseph Durso

New York Times Service

AS VEGAS, Nevada. — Roberto Duran took the biggest and the last tumble of his career Saturday night when he was knocked in the second round by Thomas Hearns.

It was a short and savage fight, as most had predicted last week.

In the first round, he knocked Duran down. And, in 1 minute, 7 seconds of the second round, Hearns knocked Duran out to retain his super-welterweight championship of the World Boxing Council.

On Saturday, Duran flew home to Panama for his 33d birthday under the collapse of his boxing career. Gone was his ambition to come the first boxer to win four world titles.

Gone was his chance for further redemption from the other decade of his career, the night against Ray Leonard almost four years ago, which ended when Duran quit and walked off.

Hearns, meanwhile, was reveling in the revival of his career, and announced that he was drawing a ad on Marvelous Marvin Hagler.

"The Hit Man's been away for a

while," Hearns said, reclaiming the nickname that had faded in the last two years. "On vacation. But this was the hardest I've ever hit. The Hit Man is back."

"Now," he said, "I would like to move on to the middleweight division and challenge Hagler. We don't have to put out any contract on him. I think Marvin Hagler knows where I'm coming from."

After that, there would be no one left in the middleweight division. So, I'd want to move up to the light-heavyweight class and go after Michael Spinks."

With his nonstop assault on Duran, Hearns, 25, restored a career that had been in limbo since the night Leonard knocked him out in 14 rounds three years ago.

Hearns attacked from the start, making full use of his physical advantages. At 6 feet, he had 4 inches over Duran and 11 inches in reach.

He kept Duran at a distance, set him up with left jabs and pounded him with right crosses.

Before the fight was two minutes old, he had opened a cut over Duran's left eye. Then he dropped Duran twice in the final minute of the round. Duran took the mandatory 8-count but, when the round ended, he was so confused that he wobbled to a neutral corner instead of his own.

In the second round, the punishment continued until Hearns drew a tremendous right cross that hit Duran flush on the side of his head and knocked him face down to the canvas in the center of the ring.

Duran's manager, Luis Spada, jumped into the ring, "because I let it all was over." And he was right. The referee, Carlos Padilla of the Philippines, was already extending his arms to end the fight and, in all likelihood, Duran's career.

It was sixth defeat in 82 bouts for Duran, but the fourth in his fast seven fights. He had been knocked off his feet only twice before; he had never been wiped out by an opponent. But this time was destroyed.

"I have no excuse," Duran said later. "I tried in slip inside. But I had to be too careful. It was a surprise to me, that's all."



Thomas Hearns lands a right to the head and knock out Roberto Duran in the second round.

quiet Outraces Audia for Victory

Associated Press

MONTREAL — Nelson Piquet, defending world champion, finished a race for the first time this season, driving his BMW-powered March Sunday to victory in the Canadian Grand Prix.

Piquet beat McLaren-Porsche of Jody Scheckter across the finish line in a 70-lap, 192.5-mile (30-kilometer) race by 2.612 seconds after edging all but the first few moments of the event.

Piquet started from the pole after setting a qualifying record on a 2.75-mile, 17-turn circuit. But Scheckter in a McLaren jumped to the lead at the start. He led through the first few turns before Piquet took the lead for good.

"I have no excuse," Duran said later. "I tried in slip inside. But I had to be too careful. It was a surprise to me, that's all."

France, Denmark Romp in Soccer Finals

Reuters

NANTES, France. — Michel Platini, making his 50th international appearance, scored three times as France swamped Belgium, 5-0, Saturday to become the first of the eight countries to reach the semifinals of the European soccer championship.

What little doubt there was that France would reach the last four was swept aside when Denmark defeated Yugoslavia, also 5-0, in Lyons to complete the second section of Group One games. The result ends the Yugoslavs' hopes of reaching the semifinals. Denmark and Belgium will compete for the second semifinal place from the group in Strasbourg on Tuesday.

On Sunday, Rudi Voeller scored twice to lead West Germany in a 2-1 victory over Romania in a tense Group Two clash in Lens.

West Germany, held to a score-

less draw against Portugal, opened the scoring when Norbert Meier sent a cross from the left side into the box where Voeller headed the ball past Romania goalkeeper Silvio Lameira in the 25th minute.

Marcel Coras — who scored the Romanian goal in their opening 1-1 match against Spain — caught the defending champion napping to give Romania a temporary equalizer less than a minute into the second half.

But in the 56th minute, Klaus Allofs passed to Karl-Heinz Rummenigge, who, in turn, fed Voeller for the game winner.

Spain was playing Portugal in a late game.

France's midfield trio of Platini, Alain Giresse and Jean Tigana played a towering game against Belgium. "We lost the battle in midfield where the French have the strongest formation in the world,"

said Belgium's trainer, Guy Thys, in an assessment which only the Brazilians with Zico, Socrates and Falcao at their disposal might justify.

It is not only in its role as hall-of-fame players, but also as

defending champions, that the French midfields have come in

dominate opponents, but also as

scoring. Of the six goals France have

scored so far in the final, all have

come from midfield players with

Platini claiming four.

The other two goals Saturday were scored by Giresse, his first goal of the tournament, and by Luis Fernandez, playing out of position at right back.

Denmark's strength also lies in their midfield. In fact if there is a pattern for the future emerging from this tournament it is that in place of the old 4-3-3 or 4-2-4 systems, trainers will pack their midfields with up to five players. The

idea is that this gives a team the flexibility to throw men forward or call them back as the situation demands.

Denmark, which lost the France, 1-0, on Tuesday in Paris, simply ran Yugoslavia ragged with some brilliant one-touch football.

Four of the Danish goals were scored by midfield players, including two by Frank Arnesen, who had a knee operation two years ago and was not expected in play in

Denmark on Saturday night.

The only true striker to score was Preben Elkjaer.

Said the Danish trainer, Sepp Piontek, "It was a wonderful result after the disappointment in Paris when we lost two points and Allan Simonsen."

Arnesen's rise to fitness has provided the Danes with some compensation for the loss of Simonsen with a broken left leg.

In the end, however, Zoeller bogeyed the final two holes from bunkers, giving the lead back to Irwin.

"If ever there was a head-to-head duel, it would have been today," Irwin said.

Zoeller and Irwin were paired again Sunday. But they were not overlooking the only other two under-par after the third round, Greg Norman and Jim Thorpe.

Norman, the long-hitting Australian, birdied the par-3 16th hole to go to 3 under. He had started the day in third place at 2 under-138 after shooting a 68 in Friday's third round.

On Saturday, he bogeyed the first hole, birdied the second, bogeyed the fourth and birdied the fifth. He had a third-round 69 and was third alone at 207.

Zoeller, joking with the gallery despite the pain of a chronic back condition, also had a 69 and, just as he was at the start of the day's play, remained one shot back at 206 going into Sunday's final round.

The two leaders, who played together in the final threesome on the course, were never separated by more than one stroke as they engaged in something approaching match play.

They were tied for the lead on four separate occasions. Irwin led twice, and Zoeller four times.

mini-tour player who has made three unsuccessful attempts at the PGA Tour. He began the day at 138, tied with Norman for the third straight 69.

But Winged Foot caught up with him. The 6-footers had been making par begin to last. And when it was over, he had shot a third-round 81 for a total 219, 14 strokes back.

On Friday, Larry Nelson, last

year's Open champion, failed to make the cut after a 12-over 82 in Thursday's first round and a 76 Friday. Ben Crenshaw, the Masters champion, was also cut after a 71 Friday for a two-day total of 158.

Craig Stadler, after a 42 on the front nine Friday, walked off with his tee shot on the 16th, kicked the ball down the fairway and walked in.

Also on Friday, Irwin became the first player in four Opens at Winged Foot to birdie the last three holes. U.S. Golf Association records show that in three previous Opens — in 1929, 1959 and 1974 — no golfer finished with consecutive 3s on the 45-yard 16th, 44-yard 17th and 448-yard 18th holes.

"Actually, the first four or five holes were harder today, because they were playing into the wind," Irwin said Friday. "But given a different wind or no wind, that stretch of holes has to rank among the most difficult Open holes to finish on."

Third-Round Leaders

The Associated Press

Hole	Irwin	Zoeller	Norman	Thorpe
18	68-69-69=206	71-68-69=205	72-71-69=204	72-71-69=211
1	72-71-69=204	71-72-69=203	73-71-69=202	73-71-69=212
2	72-71-69=203	71-72-69=202	73-71-69=201	73-71-69=211
3	72-71-69=202	71-72-69=201	73-71-69=200	73-71-69=210
4	72-71-69=201	71-72-69=200	73-71-69=199	73-71-69=209
5	72-71-69=200	71-72-69=199	73-71-69=198	73-71-69=208
6	72-71-69=199	71-72-69=198	73-71-69=197	73-71-69=207
7	72-71-69=198	71-72-69=197	73-71-69=196	73-71-69=206
8	72-71-69=197	71-72-69=196	73-71-69=195	73-71-69=205
9	72-71-69=196	71-72-69=195	73-71-69=194	73-71-69=204
10	72-71-69=195	71-72-69=194	73-71-69=193	73-71-69=203
11	72-71-69=194	71-72-69=193	73-71-69=192	73-71-69=202
12	72-71-69=193	71-72-69=192	73-71-69=191	73-71-69=201
13	72-71-69=192	71-72-69=191	73-71-69=190	73-71-69=200
14	72-71-69=191	71-72-69=190	73-71-69=189	73-71-69=199
15	72-71-69=190	71-72-69=189	73-71-69=188	73-71-69=198
16	72-71-69=189	71-72-69=188	73-71-69=187	73-71-69=197
17	72-71-69=188	71-72-69=187	73-71-69=186	73-71-69=196
18	72-71-69=187	71-72-69=186	73-71-69=185	73-71-69=195
19	72-71-69=186	71-72-69=185	73-71-69=184	73-71-69=194
20	72-71-69=185	71-72-69=184	73-71-69=183	73-71-69=193
21	72-71-69=184	71-72-69=183	73-71-69=182	73-71-69=192
22	72-71-69=183	71-72-69=182	73-71-69=181	73-71-69=191
23	72-71-69=182	71-72-69=181	73-71-69=180	73-71-69=190
24	72-71-69=181	71-72-69=180	73-71-69=179	73-71-69=189
25	72-71-69=180	71-72-69=179	73-71-69=178	73-71-69=188
26	72-71-69=179	71-72-69=178	73-71-69=177	73-71-69=187
27	72-71-69=178	71-72-69=177	73-71-69=176	73-71-69=186
28	72-71-69=177	71-72-69=176	73-71-69=175	73-71-69=185
29	72-71-69=176	71-72-69=175	73-71-69=174	73-71-69=184
30	72-71-69=175	71-72-69=174	73-71-69=173	73-71-69=183
31	72-71-69=174	71-72-69=173	73-71-69=172	73-71-69=182
32	72-71-69=173	71-72-69=172	73-71-69=171	73-71-69=181
33	72-71-69=172	71-72-69=171	73-71-69=170	73-71-69=180
34	72-71-69=171	71-72-69=170	73-71-69=169	73-71-69=179
35</				

Edward Bernays, Planner of Consent

By Michael Kerman
Washington Post Service

WASHINGTON — It is easy to say that Edward L. Bernays is the father of public relations. People have been calling him that for years.

What they mean, but don't quite dare say, is that Edward L. Bernays is the father of us all.

He is certainly old enough. He is 92½, as he points out with some glee, and he doesn't miss a trick, or a name, or a date. He doesn't even wear glasses.

Recently he flew to Washington from Cambridge, Massachusetts, to lecture at the National Portrait Gallery. It was less a lecture than a marvelous outpouring of anecdotes. It is a form of memoir, the memoir he doesn't have time to write.

This is the man who took the sleazy trade of the press agent and turned it into a profession. America has never been the same since, for example:

• In 1913 people didn't take many baths. You had to heat the water yourself and pour it into the tub. Besides, the soap stung your eyes. Bernays, straight out of Cornell with a degree in agriculture (his father had insisted; it had something to do with Teddy Roosevelt's "back-to-the-land movement"), was editor of the *Diagnostic and Hygienic Gazette* at \$25 a week. He ran a campaign promoting the joys of showering and a few years later he followed up with the Procter and Gamble Ivory Soap carving contest. Within a year, 22 million American kids were sculpting cars, bears and snails. The Saturday night bath passed into history.

• Actor Richard Bennett, father of Joan and Constance, wanted to put on an avant-garde play, "Damaged Goods," about venereal disease. He knew he'd never get it past Anthony Comstock, a sort of moral dictator of the time. Bernays set up a committee that produced the play as a sociological study. Franklin and Eleanor Roosevelt were among those who bought memberships at \$4 apiece. The social hygiene

movement was launched, and Americans began to hear about something called sex education.

• 1919. Diaghilev's Ballets Russes was coming to the Metropolitan. But the U.S. public knew next to nothing about ballet. What to do? Call in Mr. Bernays.

"We treated it as an art form combining many others: dance, music, drama, scene painting, costumes — with men in it, too," he said. "People could understand that."

He tried to get Edward Bok, editor of the Ladies Home Journal, to run a photo of the dancers. "Our public wouldn't stand for women with their skirts above their knees," said Bok. "Not to worry," said Bernays. "We'll retouch 'em." He did, and Savile Row to insist on extra sleeve buttons for jackets.

• In 1934 G. W. Hill of American Tobacco sold Bernays he was losing half the cigarette market because men wouldn't let women smoke on the street. "I went to a torch of freedom," he told me. "It's a symbol of men's inhumanity to women. It also titillates the erogenous zone of the lips." So that Easter I called up some debts and they got their pictures in the papers for the Easter Parade on Boston Common, Central Park, places like that. Smoking. Within three days The Times reported women smoking in public in four major cities.

What happened next tells a great deal about Edward L. Bernays. He learned that cigarettes can cause cancer. Immediately, he turned around and worked for the anti-tobacco forces.

"A profession is an art applied to a science with the public interest in mind, instead of personal gain," he defined. "We check clients to see if their interests coincide with the public interest. Then we educate the public."

He turned down Hitler as a

Bernays discovered that Argentina produced the bone for buttons on men's suits. It was child's play to contact that fashion plate, the Prince of Wales, and get Savile Row to insist on extra sleeve buttons for jackets.

client. He turned down Franco. He turned down Somoza. It still makes him somewhat uneasy to recall that Joseph Goebbels, Hitler's propaganda minister, kept a copy of "Propaganda," a 1923 book by Bernays, on his desk.

"It's like any instrument," he explained. "Surgical instruments. They can be used for the wrong purposes."

As a public relations counselor, despite the ominous sound of his famous phrase — the engineering of consent — Bernays rejected causes he did not believe in.

He feels his greatest contribution is his insight into how public opinion is formed. In both world wars, he worked for the government, and when he casually remarks, "During the war I was over in Paris with Woodrow Wilson at the peace conference," he is just dropping a name.

Born in Vienna, he was brought to this country at the age of 1. Later he moved to Cambridge after surveying 500 chambers of commerce to find a city that had good hospitals, a university, industry and culture. There were only five on his list.

In 1919 when he and his future wife, Doris Fleischman, opened their first office in New York (the original name was "publicity direction"; they changed it to "counsel on public relations"), their first customer was the War Department, which wanted help

in getting jobs for ex-servicemen. "It all comes down to planning and research," he said, making it sound so simple.

"Evidences of the power of public opinion prove to every man the necessity of understanding the public, of adjusting to it, of informing it, of winning it over. The ability to do so is the test of leadership," he writes in "The Engineering of Consent."

With such an analytical approach to life, it is no great surprise to learn that Bernays is a nephew of Sigmund Freud. In the 1930s Freud sent him the manuscript of his "New Introductory Lectures on Psycho-Analysis."

Bernays had it translated and published, and later Freud wrote that the royalties had kept him and his family alive during the early years of the Nazi regime.

Bernays expects the emerging generation gap to cause a national crisis in the United States. "In another 60 years, 40 percent of the population will be over 65," he said. "We could have a political civil war between the generations over such issues as Social Security."

He has been working since 1961 on committees to find jobs for older people and to enact a law to prevent mandatory retirement.

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